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Introduction

The Shipping Industry Almanac is published annually by the EY global shipping industry network, which comprises shipping industry professionals in over more than 60 EY member firms.

Our 19th edition of the Shipping Industry Almanac provides you with a comprehensive summary of the local shipping industry infrastructure and regulatory, corporate and tax environments in 49 jurisdictions around the world. The content is based on information current as of 1 January 2016, unless otherwise indicated.

A directory of EY shipping industry executives across our four service lines of Assurance, Tax, Transactions and Advisory is at the back of the Shipping Industry Almanac, and highlights our local industry knowledge and our global reach.

For more information, please visit us at ey.com or contact any of our professionals listed in the directory.
Argentina

1. Tax

Argentina does not have a specific tax law for shipping companies. Shipping companies must comply with general tax regulations. In Argentina, companies are subject to federal taxes (such as income tax and value-added tax (VAT), among others), provincial taxes (such as turnover tax and stamp tax) and municipal taxes. However, some guidance regarding shipping activity may be found in the federal and provincial legal systems.

1.1 Income tax

For Argentine residents, income tax is levied on all income earned in Argentina or abroad. Income tax paid on income from activities abroad may be claimed as a tax credit. For nonresidents and foreign beneficiaries, income tax is levied exclusively on Argentine-source income. Nonresidents become residents if they have a permanent establishment in Argentina.

In general, Argentine-source income arises from assets located, placed or used in Argentina, from the performance of any act or activity in Argentina and from events occurring within Argentina. The income tax rate is 35% and is applicable to the net income of companies residing in Argentina and the net presumed income of foreign beneficiaries (in some cases, net-income basis applies).

The following items may be deducted from gross income to assess taxable income:

- In general, all expenses necessary to earn it or to maintain and keep its source
- The amortization or depreciation of construction, equipment and other assets, in general, based on their estimated useful life
- The net operating losses (NOLs) from previous fiscal years (carryforward is allowed for five years; there is no carryback system)

The Income Tax Law has many specific requirements regarding tax deductions for foreign loans when the lender is a related company.

Section 18 of the Income Tax Law establishes the timing of the deduction of interest on foreign intercompany loans (also applicable to other expenses that are considered as Argentine source income for the foreign beneficiary). Interest derived from loans granted by foreign related parties or from tax havens (i.e. noncooperative countries) may only be deducted in the same tax year the payments are made or in the period of accrual, but only if actual payment takes place before the due date for filing the tax return for the tax year in consideration.

If the lender is not a related company, then the deduction of interest is allowed on an accrual basis. If the lender is a related party, thin capitalization rules must also be considered.

Thin capitalization rules are applicable when interest is paid to a foreign lender that controls the Argentine borrower company, except for those cases when interest payments are withheld at 35%. Interest paid where the liabilities exceed two times the amount of the company’s equity at year-end becomes nondeductible and is taxed like dividends. In other words, the excess interest will become a permanent difference between the book and tax basis.

Transfer pricing rules follow Organisation for Economic Co-operation and Development (OECD) guidelines and apply on transactions with related parties or with entities in tax havens (i.e., noncooperative countries). Additionally, there is no tax consolidation system in place.

Dividends paid in excess of net income, which are assessed using the general provisions of the Income Tax Law and accumulate as of the prior fiscal year-end through the date of payment, are subject to a 35% withholding rate. The 35% rate may be reduced if the foreign beneficiary is a resident of a country with which Argentina has entered into a double-taxation agreement, as long as applicable treaty requirements are met.

Per the last Income Tax Law modification (September 2013), dividend distribution is taxed in Argentina at
a rate of 10% when the payment is made by a local company to a foreign company or individual, or to local individuals.

Earnings from the sale of shares of an Argentine company owned by a foreign shareholder are taxed at a 15% rate. Taxation is made through withholding, which can be calculated by applying the tax rate to the real income or to the presumed income (90% of the sale price).

**1.1.1 Shipping industry considerations**

The Income Tax Law establishes that, for Argentine shipping companies, all income related to transportation, either in Argentina or abroad, is considered Argentine-source.

For foreign shipping companies, Income Tax Law presumes (without admitting evidence to the contrary) that any company providing transportation or carriage between Argentina and foreign countries has Argentine-source net income equal to 10% of the total amount of freight and passenger transport earnings from such trips (with a 3.5% effective rate). Further, 10% of all payments made by local companies to foreign shipowners for charter services are also considered Argentine-source net income.

Foreign companies in the container business that provide transportation in Argentina or from Argentina to other countries are presumed to have Argentine-source net earnings equal to 20% of the gross income for this activity (with a 7% effective rate).

**1.2 Double taxation treaties**

To avoid double taxation, Argentina has entered into treaties with the following countries: Australia, Belgium, Bolivia, Brazil, Canada, Denmark, Finland, France, Germany, Italy, the Netherlands, Norway, Russia, Spain, Sweden, Switzerland, the United Kingdom and Uruguay.

In all of these treaties, except for the one signed with Uruguay, Section 8 establishes the provisions related to navigation and shipping, as well as air transportation. According to these treaties, international shipping income may only be taxed by the country where the company is located, established or where its Board of Directors is located, as appropriate. Some treaties also include charter activities among the company’s benefits, subject to these provisions.

Argentina has also entered into other treaties (or exchanged notes) exclusively related to international transportation (by sea, air and/or land, depending on the country). The following are the signatory countries: Chile, Colombia, Cuba, Ecuador, France, Greece, Iran, Israel, Italy, Japan, Malaysia, Mexico, the Netherlands, Norway, Panama, Paraguay, Peru, Portugal, the United Kingdom, the United States and Venezuela.

Each treaty determines whether double taxation on sea, air or land transportation may be avoided. Although there are some variations among the countries, the main implication is that international transportation income will only be taxed by the country where the company is established.

In these cases, the presumptions used to determine Argentine-source net income (refer to section 1.1) would not apply due to the treaties in force.

**1.3 Minimum presumed income tax**

The minimum presumed income tax is complementary to income tax. The minimum presumed income tax base comprises the asset value of certain taxpayers (for example, Argentine artificial persons, branches of foreign companies) in compliance with the law in force. This tax rate equals 1%.

Applicable exemptions include:

- Investments in shares of other entities subject to the minimum presumed income tax
- Taxpayers’ assets located in Argentina when the value thereof (according to regulations) does not exceed ARS200,000 (if assets exceed ARS200,000 the total asset value is subject to taxation)

Investments in new fixed assets are not computable except for automobiles and investments in real estate construction are not subject to the minimum presumed income tax during the fiscal year the investment
is made and its immediately subsequent year. The annual income tax may be offset against the minimum presumed income tax for the same year. However, if in any given year the minimum presumed income tax is assessed and it is not fully absorbed by that year’s income tax, the tax effectively paid could be credited against income tax – subject to certain conditions – over the subsequent 10 years. Tax credits resulting from the payment of similar taxes abroad on taxable assets may be computed.

1.4 Tax on personal assets for corporations
Based on the presumption regarding indirect ownership by foreign individuals, foreign companies holding business interests in Argentine companies are subject to taxation on personal assets. The personal assets tax should be calculated and paid by an Argentine company as a substitute taxpayer. However, the Argentine company is entitled to claim tax reimbursement from related shareholders. The taxable base is assessed on the value of the local entity’s equity as disclosed in the last financial statement as of 31 December. The applicable tax rate is 0.5%. On 16 December 2014, the Federal Supreme Court ruled in the case “The Bank of Tokio” that branches of foreign companies established in Argentina are not subject to taxation on personal assets. Therefore, Argentine branches must not act as substitute taxpayers.

1.5 Value-added tax
VAT is a general tax that applies to the sale of goods, the provision of services and the importation of goods within Argentine territory, including:
- Sales of goods
- Services provided by any natural or artificial person performing business activities
- Final import of goods for consumption
- Services provided from abroad to be used in Argentina, provided the beneficiary is a registered VAT payer
VAT is applied to the goods or services net sales price (tax debit). It is assessed on a monthly basis. The tax debit can be offset with the tax credits that are included in the purchase invoices of the different vendors (tax credit) to assess the payment amount. If tax credits exceed tax debits, a technical tax credit results, which may be used to offset future tax debits or, as the case may be, a freely available tax credit that may be recovered through cash reimbursement, used against other taxes or transferred to third parties.

Applicable VAT rates are:
- 21% for general goods and services
- 27% for certain services, such as telecommunications, electricity, gas and water supply
- 10.5% for particular transactions, such as the final purchase or import of certain capital assets

Exports are VAT-exempt, but exporters may compute the tax amount they were billed by vendors as a tax credit to offset the tax amount owed for other transactions subject to VAT at the local market. If such computation results in an unabsorbed tax credit surplus, that amount is eligible for reimbursement, which may be used to offset other federal taxes or may be transferred to third parties.

Shipping industry considerations
In connection with the shipping industry, the VAT law includes some tax exemptions for international shipping and related activities. Specifically, under the VAT law, international passenger and freight transportation is tax-exempt and must be considered an export. This means that any tax credit may be recovered, transferred or used to offset other taxes. Charter services are also tax-exempt when the vessels are used for international transportation. This exemption only applies if the lessor is an Argentine shipowner, and the lessee is a foreign company. These operations will also be considered exports. There is also a tax exemption for aircraft built for passenger or freight transportation, as well as those envisaged for defense and national security (in the latter case, its parts and components are also tax-exempt). Ships and vessels are also VAT-exempt, as well as their parts and components, as long as the purchaser is the Argentine government.

1.6 Tax on bank account transactions
This tax is levied on bank account transactions, equivalent transactions, and generally on all movement of funds.
made on one’s own account and/or on third-party accounts within the Argentine territory at a general rate of 0.6%. An amount equaling 34% of the tax withheld over credit transactions in levied accounts may be computed as a credit against income tax or minimum presumed income tax (prepayments and/or tax return amount).

1.7 Turnover tax
Turnover tax is a provincial tax charged by tax authorities in each of the 24 jurisdictions (including the 23 provinces and the autonomous city of Buenos Aires). This tax is levied on revenue resulting from traditional profit-making activities, such as business, industry, professional activity, employment or service contracts, regardless of the outcome, the nature of the service provider or the place where the activities are carried out.

The following exemptions, inter alia, may vary according to the jurisdiction involved:

- Transactions with securities, certificates and other documents issued by the federal, provincial or municipal governments
- Transactions with shares and dividends
- Interest and/or indexation on savings accounts and fixed-term and checking account deposits
- Sale of fixed assets
- Exports

Turnover tax rates vary according to the jurisdiction and the activity involved — 4% is the average rate applicable to the services rendered. Companies subject to turnover tax that perform activities in more than one province have to allocate the tax base among the respective jurisdictions pursuant to an agreement they have entered into for this purpose.

Shipping industry considerations

With regard to the shipping industry, the turnover tax is a jurisdictional tax, and therefore the operations taxability will depend on each jurisdiction. Some jurisdictions, such as Buenos Aires or Mendoza, include a tax exemption for international transportation in their fiscal codes. In many other jurisdictions, although shipping activity is taxed, there is a provision in the fiscal codes that foreign companies from countries with double taxation treaties with Argentina will not be taxed on income derived from this kind of activity (international transportation). When performed within Argentina’s boundaries, freight and passenger transportation can only be taxed by the jurisdiction where the trip originates.

1.8 Stamp tax
According to the respective provincial regulations, the stamp tax is levied on public or private instruments granted within the provincial territory or, if the instruments are executed abroad, the tax is paid insofar as the agreement has effects in Argentina. Conversely, as stated by the respective provincial laws, if the transactions are formalized using the offer letters set by one party and then tacitly accepted by the other party (i.e., without actually stating the legal implications of such document), the tax may not be triggered, regardless of the jurisdiction where it may be executed.

In general, the applicable rate is 1%, with certain exceptions listed in the respective provincial tax codes. Depending on the arrangement of the agreements entered into for the transactions analyzed, the stamp tax may be levied in the jurisdiction where the mentioned agreements are entered into and/or in the jurisdiction where they come into effect.

Shipping industry considerations

As with the turnover tax, the stamp tax is a provincial tax; therefore, it is necessary to observe whether each jurisdiction makes any special considerations regarding the shipping industry. In most of them, there is no tax exemption, but in Buenos Aires, the instruments signed for the sale or rent of a vessel or aircraft are tax-exempt as long as they are exclusively used for commercial, not personal, purposes.

1.9 Tonnage tax regime
Argentina does not have a tonnage tax regime.
2. Corporate structure

The different types of business partnerships described in Argentine Corporate Law, No. 19.550 are as follows:

- Stock corporation (Sociedad Anónima) – its capital is divided into shares
- Single-member stock corporation (Sociedad Anónima Unipersonal)
- Limited liability company (Sociedad de Responsabilidad Limitada) – its capital is divided into quotas
- Public company, in which the government is the majority shareholder
- Limited partnership (Sociedad en Comandita)
- General partnership (Sociedad Colectiva)
- Partnership in which one of the partners provides the capital and the other, services
- Branch office of a foreign corporation

The most common forms of business partnerships used by foreign investors in Argentina are stock corporations, limited liability companies and, to a lesser extent, local branches of foreign companies. The main characteristics of these entities are described below.

Stock corporation (Sociedad Anónima or S.A.)

Capital stock is represented by shares. Shares must be registered and non-endorsable. According to the rights they grant, shares may be classified into common or preferred shares; the latter usually have priority upon payment of dividends, do not carry voting rights and, in general, are entitled to fixed cumulative dividends. If the shareholders of a corporation organized in Argentina are foreign business partnerships, they have to file their articles of incorporation or bylaws with the Public Registry of Commerce.

Single-member stock corporation (Sociedad Anónima Unipersonal)

On 1 August 2015 the Federal Civil and Commercial Code was amended. In the new Code, there was created the single-member stock corporation, which is a kind of stock corporation with a single shareholder.

Limited liability company (Sociedad de Responsabilidad Limitada or S.R.L.)

A minimum of 2 and a maximum of 50 partners, who may be individuals or corporate entities (except for SAs and Argentine limited liability companies with share capital (Sociedades en Comandita por Acciones)), may set up an SRL. Foreign corporate entities are admitted as partners of SRLs provided that they are empowered to participate in such companies by the laws of their jurisdiction of incorporation. Capital must be fully subscribed, denominated in Argentine currency and divided into partnership quotas. One-quarter (25%) of the capital must be paid up by the partners at the time the SRL is formed, and any balance must be paid up within two years thereafter. Where quotas are issued in consideration for contributions in non-monetary assets, they must be fully paid up. Partnership quotas must be of equal par value and entitle the holder to one vote each. Partners in an SRL are entitled to preemptive rights with respect to new issues of quotas. The partners may appoint one or more managers, who may be partners, employees or third parties, to manage the company. The managers represent the company, either individually or jointly, as provided for in the bylaws.

Branches of foreign companies

To legally do business as a branch, these organizations must prove the existence of their head offices abroad, register the articles of association or bylaws with the Registry of Public Commerce, and appoint and register representatives. Branches are required to keep books separately from those of their head offices and to file financial statements with the corporate oversight agency.

3. Human capital

3.1 Labor and social security legislation

Argentina has a skilled labor force. Well-trained employees are generally not difficult to find in most industrial
areas. However, for some areas experiencing a substantial increase in their industrial activity, a shortage of skilled labor may occur. Salaries and wages for office and plant workers vary from one region of the country to another. Minimum salaries are generally established by collective bargaining, but supply and demand usually has great influence in determining the best qualified workers' salaries.

A general Employment Contract Law, supplemented by additional laws and regulations, governs employment conditions throughout Argentina. In addition, there are collective bargaining agreements that regulate specific employment conditions for each particular sector.

However, the above-mentioned law does not apply to farm workers or government employees, whose working conditions are established in separate laws and regulations. There are also special laws dealing with certain groups of workers (e.g., traveling salesmen, journalists and domestic workers, among others).

### 3.2 Labor legislation

Almost all industrial and office workers belong to a labor union. Labor unions handle collective negotiations, which cover both employment conditions and salaries and wage scales. Negotiations, therefore, can be by activity, by one or more sectors of an activity, by specialization or profession, by company, or by any other characteristic, but always follow the provisions set under the main collective agreement in force for the activity.

**System for the promotion and protection of registered employment**

There is a system for the promotion of registered employment granted to employers with no more than 80 employees that consists of a reduction benefit in the payment of employer contributions (for the Integrated Retirement and Pension System (INSSJP, by its acronym in Spanish) to fund the senior citizens' health care plan – the Argentine equivalent of Medicare in the US – the National Employment Fund, the National System of Family Allowances, and the National Registry of Rural Workers and Employers only). These contributions are reduced by 50% during the first two years of a new employment relationship.

It is expected that employers will maintain the benefits of the employment promotion system as long as they do not reduce the total headcount for a term of two years after such benefits end. Since August 2014, employers may join this system for a period of 24 months, and then the Argentine Executive Branch may extend such period every year.

### 3.3 Social security

According to current social security regulations, an employee's salary is subject to employer and employee contributions to the Argentine social security system. Additionally, benefits in-kind are also subject to social security taxes.

Employee social security taxes are withheld from compensation at a fixed rate of 17% for the following programs, and are applied on a monthly maximum taxable base of AR$56,057.93:

- Pension fund: 11%
- Retirees fund: 3%
- Health system: 3%

The employer social security contributions rate is 21% or 17% (including contributions to the Health System), depending on the local entity's main activity and invoicing level. Additionally, all employers have to pay a 6% contribution to the Health Care System (increasing the mentioned rates to 27% or 23%, respectively). Employer social security and health care contributions do not have ceilings.

*Shipping industry considerations regarding foreign vessels used for chartering*

Decree No. 1010/2004, which includes some regulations in relation to the National Merchant Marine, aims to increase the commercial possibilities for local shipyards and seafarers in order to improve the Argentine shipping industry. Foreign-flagged vessels chartered by Argentine shipowners, under the temporary import regime, will be treated as if they were Argentine-flagged vessels. This benefit does not apply to vessels and ships that can be built in Argentina.
There are some formal requirements in order to apply for this regime, including that vessels and naval crafts protected by this decree must be manned only by Argentine crew. Such requirement does not apply if not enough Argentine personnel are available.

4. Grants and incentives

4.1 Specific and/or general subsidies available to shipping companies

No specific incentives are available for shipping companies.

4.2 Investment incentives for shipping companies and the shipbuilding industry

At the time of publication, there are no other specific incentives currently available to the shipbuilding industry.

5. General information

5.1 Infrastructure

5.1.1 Major ports

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There must be taken into account that the Argentine Executive Branch has issued Presidential Decree No. 2229/2015 whereby a rebate system was established for exports channeled through Patagonian ports and customs.
This measure was mainly aimed at growing the economy of the Patagonian region by establishing a preferential system to boost settlement in this area and to attempt to offset existing asymmetries created by the distance between consumption centers and the remaining Argentine regions.

The rebate system had been established before in 1983 by the Argentine Legislative Branch through Law No. 23,018. It set forth an additional rebate for exports made through Patagonian ports and customs for a certain term.

The fact that the rebate system was not effective for a long time hindered commercial competitiveness, causing serious damage to the activities of the Patagonian sector. Therefore, the Argentine Executive Branch decided to resume the implementation of this benefit through Presidential Decree No. 2229/2015.

This rebate is applicable to exports for consumption of goods originating from the region located to the south of Río Colorado, channeled through regional ports and customs, as established by Law No. 23,018.

The applicable rebate rate will be that which was effective as of January 1, 1984, which ranges between 8% and 13% of the export FOB value plus the adjustments to be included less temporarily imported supplies, depending on the shipment port, and will be effective for five years.

To be entitled to the benefit, exporters are required to prove the origin with a certificate of origin for the product to be exported.

5.2 Foreign exchange regulations
On 10 December 2015, the Argentine federal government implemented relevant measures dealing with foreign exchange matters, in order to optimize and facilitate foreign trade operations, which is an area that has been subject to several restrictions and delays in the last years.

5.3 Services rendered to nonresidents
Funds derived from the collection of services rendered to nonresidents must be entered into the local Foreign Exchange Market within 15 business days of the date of collection.

Since February 2016 foreign currency collected from services can be kept in foreign currency in local bank accounts up to the amount of US$2 million per month. Such amount would be deducted from the monthly limit applicable to treasury purposes (purchase of foreign currency by individuals and companies for treasury purposes including investments abroad, which had been significantly limited in last years, was reinstated with a cap of US$2 million per month).

5.4 Capital contributions
Foreign currency proceeds of capital contributions into Argentina and the related funds may be kept in an account abroad. In relation to the use of US dollars (USD) deposited in a bank account abroad, they can be used to make payments to foreign and local suppliers, and the subsequent use of such foreign currency is not subject to the Argentine foreign exchange regulations. As a result, it is possible to use such funds to make payments to suppliers (and such payments should be made to bank accounts outside Argentina). Local suppliers of goods or services who make collections abroad from foreign bank accounts of local companies will not be required to bring such funds into Argentina.

5.5 Loans from abroad
Financial loans are not required to be settled in Argentina. However, it is required to provide evidence showing the inflow of funds remains in effect for the subsequent payment of principal and interest through the foreign exchange market.

The minimum term for repayment is 120 days, and advance payment is allowed (as long as the 120-day term is respected).

5.6 Non-produced, nonfinancial assets
The amounts received by Argentine residents in foreign currency on account of the divestiture of non-produced, nonfinancial assets, such as sportsmen and sportswomen transfers, patents, trademarks,
copyright, royalties, license rights, concessions, leases and other transferrable agreements shall be brought into Argentina and converted into Argentine pesos on the domestic Foreign Exchange Market within 30 running days as from the date when the funds are received in Argentina or abroad or credited to accounts abroad.

5.7 Outflow of funds
According to the current exchange regulations in force, there is a formal procedure to make payments abroad.

5.8 Import of goods
Regarding import payments, the Foreign Exchange Regulations allow payments:
- In advance, which require from the importer the effective proof of the nationalization of the goods in a term of 365 calendar days as from the access to the Foreign Exchange Market
- On demand, in which case the importer shall have 90 calendar days to show the import clearance to the financial entity
- Deferred, which is performed after the nationalization of the goods, and only if the debt is past due

Imported goods for consumption from every tariff heading of the Mercosur’s common nomenclature (hereinafter “NCM”) is subject to the approval of prior automatic or non-automatic import licenses, depending on the goods.

Import licenses are effective for a 90-running-day period as of the date of approval through the Sistema Integral de Monitoreo de Importaciones, hereinafter “SIMI”.

The SIMI identification number must be submitted when registering the destinations for the consistency controls agreed with the relevant agencies to be performed and for verifying that it has been validated.

5.9 Payment of Services rendered from abroad
Regarding the payments of services tax, authorities created the “Early Services Provision Declaration” (Declaración Jurada Anticipada de Servicios, hereinafter “DJAS”). Argentine tax residents will be required to file the DJAS to disclose the provision of services by foreign residents to local residents and services rendered by Argentine residents to foreign parties.

In the case of equipment rentals, the Argentine resident will need to file the “Early Declaration for Payments Abroad” (Declaración Anticipada por Pagos al Exterior, hereinafter “DAPE”), to the Argentine Federal Tax Authorities, which should be approved.

5.10 Foreign currency for treasury purposes
Additionally since December, purchase of foreign currency by individuals and companies for treasury purposes including investments abroad was reinstated, with a cap of US$2 million per month.

Regarding requirements for treasury purposes, Communiqué “A” 5850 does not establish the obligation to maintain investments for a given term abroad or the obligation to bring the funds and convert them into Argentine pesos in the single and freely floating foreign exchange market.

5.11 Limits to payments abroad for imports of goods and services
Payments abroad for imports of goods and services can be made without any limit through the foreign exchange market, regarding new payables.

In relation to outstanding debts as of 16 December 2015, the following payment schedule must be observed for imports of goods and services:

Outstanding debts for imports of goods:
- As regards 2015, from 17 December until 31 December, the payments per importer should not exceed US$2 million.
- From January through May 2016, the payments per importer will amount to US$4.5 million.
- As from June 2016 there will be no cap for payments.
Outstanding debts for services rendered by nonresidents:

- Services rendered or purchased abroad until 16 December 2015 can be paid during January 2016, up to a maximum of US$2 million. The sums paid for such services will be deducted from the limit amount currently effective for the accumulation of external assets.
- As of February 2016, up to US$2 million per client may be transferred.
- From March through May 2016, the cap per client will be US$4 million per month.
- As of June 2016, there will be no cap.

5.12 Repaying financial loans
For the purpose of repaying principal and interest, the following requirements must be fulfilled:

- Interest: It may be settled in advance up to five business days from the due date of each interest installment, or at any time provided that they had accrued.
- Principal: It could be paid in advance provided the minimum term of 120 days from disbursement is complied with (applicable to new financial debts entered through the Foreign Exchange Market since 17 December 2015).

5.12 Dividend payments
In the case of earnings and dividends, the Central Bank provides access to the single and free foreign exchange system to remit earnings and dividend payments as long as they are related to closed and audited financial statements. The intervening financial entity may require the documentary evidence it deems advisable to support the transaction's legitimacy.

Distribution of dividends should be reported in the Direct Investment Report issued by Communication BCRA “A” 4237. This System establishes the obligation to report semi-annually direct investments in the country of nonresidents (higher or equal than US$500,000), and resident direct investment abroad in the form of shares in the capital of companies and real estate (higher than US$1 million). If the amount of the resident direct investment abroad is higher than US$1 million but less than US$5 million, the information could be presented annually.

To make payments abroad as dividends, the Argentine resident will need to file the DAPE to the Argentine Federal Tax Authorities, which should be approved.

Finally, dividends debt should be reported in the information system established by Communication BCRA “A” 3602.

5.13 Exports of goods
The foreign exchange regulations mandate that the foreign currency obtained from certain transactions, such as exports of goods, be converted on the foreign exchange market.

In relation to the exports to non-related companies, the terms within which to comply with the above-mentioned obligations are 30, 90 or 360 running days as from the date of shipment, depending on the tariff codes of the exported goods.

Regarding exports to related parties, the term applicable within which to comply with the obligation is 30 running days, notwithstanding the tariff code involved.

The amount collected from the purchase of non-produced, nonfinancial assets can be kept in foreign currency in local bank accounts up to US$2 million. Such amount would be deducted from the monthly limit applicable to treasury purposes.

5.14 New direct investments repatriation
For new direct investments entered into the local exchange market and converted into Argentine pesos as of 17 December 2015, nonresidents will have access to such market for repatriating their investments without the Central Bank’s prior consent.
1. **Tax**

1.1 **Income tax treatment of shipping companies**

1.1.1 **Australian domestic tax law**

1.1.1.1 **General income tax**

Shipping companies are subject to the general tax laws of Australia, including income tax, goods and services tax, stamp duty, and employment-related taxes such as fringe benefits tax and payroll tax. They are also subject to other employment considerations, including superannuation (i.e., compulsory pension) and visa considerations for non-Australian crew members.

Subject to the following comments, shipping companies operating in Australia generally pay tax at the rate of 30% of taxable income. Australian tax resident companies include worldwide income in their taxable income. Non-Australian tax resident companies include only income derived from sources in Australia. The source of specific income depends on the individual facts and circumstances of each case and relies on a range of factors, including the place of execution of contracts, where the services are performed, and where the remuneration is payable. Where a non-Australian resident shipping company operates by way of dry leasing equipment (i.e., a bareboat charter) for use in Australian waters, specific rules apply to impose Australian royalty withholding tax on the charter payments at the non-treaty rate of 30% on gross payment. The imposition of such royalty withholding tax is subject to the overriding application of Australia's double tax agreements (DTAs). Generally, true time charter payments (i.e., payments for the provision of services) are not subject to such royalty withholding tax.

1.1.1.2 **Freight tax regime**

A specific regime, commonly referred to as the “freight tax regime,” applies to entities that have their principal place of business outside Australia and that own or charter a ship to carry passengers, goods, livestock or mail “shipped in Australia.” These entities are taxed at the current corporate tax rate of 30% on 5% of the amount paid or payable to them in respect of such carriage. In this regard, 5% of charter fees are deemed to be that entity's Australian taxable income, with no offsetting deductions allowed. This effectively means that a final tax of 1.5% is imposed on gross freight income (i.e., 30% x 5%).

The Australian Taxation Office (ATO) has issued Taxation Ruling TR 2006/1, which provides further guidance regarding the application of this regime. Further, Taxation Ruling TR 2014/2 provides clarification regarding the circumstances in which Australia may tax a tax treaty resident company on profits arising from such carriage and the restrictions on this taxing right in accordance with Article 8 (shipping and aircraft profits article in Australia's DTAs).

1.1.1.3 **Tonnage tax regime**

Australia does not have a tonnage tax regime.

1.1.1.4 **Shipping tax exemption and other incentives**

A number of shipping reforms were introduced effective from 1 July 2012 aimed at addressing the cost disadvantages faced by Australian shipowners and encouraging renewal of Australia's aging fleet.

The tax reforms include an income tax exemption regime for Australian ship operators for coastal shipping to and from Australia (but excluding service vessels for offshore oil and gas projects). The exemption delivers an effective income tax rate of nil for income from qualifying shipping activities. Ship operators can qualify for this exemption where, among other requirements, a “shipping exempt income certificate” is obtained from the Department of Infrastructure and Transport. Such a certificate can be obtained by ship operators who meet certain criteria, as determined by the Department.

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1 The corporate tax rate has been reduced to 28.5% for small business entities (an individual, partnership, company or trust that operates a business and has less than AUD2 million aggregated turnover), effective for income years commencing on or after 1 July 2015.
obtained where a number of conditions are met, including the vessel being registered under Australia's Primary or International Shipping Registers, the operator being an Australian corporation, and certain management and training requirements being met. The exemption is potentially available for Australian corporates that own qualifying vessels or bareboat charter the use of the vessels the corporates operate in relation to qualifying activities. Companies are required to apply for the shipping exempt income certificate on an annual basis.

The benefit of the income tax exemption may be reduced in certain circumstances. Any dividends paid by an Australian company to a nonresident company out of tax-exempt earnings are likely to be unfranked and subject to up to 30% dividend withholding tax (subject to applicable DTA relief).

A number of other tax incentives were introduced as part of these reforms, including:

- Accelerated depreciation (reducing the effective life of qualifying vessels from 20 years to 10 years, giving a straight line tax depreciation rate of 10% or a diminishing value rate of 20%)
- Rollover relief for retirement and replacement of qualifying vessels
- A seafarer refundable tax offset for employers
- An exemption from royalty withholding tax for bareboat charters in certain circumstances

1.1.2 Potential impact of Australia’s DTAs

Australia’s DTAs may impact the Australian tax treatment of shipping companies, including those subject to the freight tax regime. Australia has negotiated DTAs with a range of countries. We refer you to our Worldwide Corporate Tax Guide or the Australian Treasury website (http://www.treasury.gov.au/Policy-Topics/Taxation/Tax-Treaties/HTML) for further details regarding Australia’s DTAs.

Under the shipping and air transport profits articles of Australia’s DTAs, profits from the operation of ships are generally only taxable in the country of residence unless the profits relate to operations “confined solely to places” in the other country. Unlike the business profits article (see below), such taxing rights (i.e., over coastal shipping) will be granted to Australia regardless of the existence of a permanent establishment (PE) in Australia for the non-Australian resident company.

In this regard, it is the view of the ATO that “voyages to nowhere,” embarking and disembarking in Australia, are considered to be “confined solely to places in Australia.” In determining residence, tiebreaker provisions apply under most DTAs, deeming residence to be the place of effective management.

As a result of the broad interpretation of the 2005 decision in the McDermott case (refer to section 1.1.3), each of Australia’s DTAs needs to be carefully considered to determine whether the use (including passive use by a bareboat lessor) of equipment (e.g., ships) in Australia may cause a PE to exist. This has been reinforced by more recent DTAs (e.g., Finland, Japan, Norway, the UK, the US, Switzerland and Germany) that require the lessor to maintain or operate the substantial equipment in Australia for a PE to arise.

Significant ATO guidance now exists on these issues in the form of public rulings Taxation Ruling TR 2007/10 and TR 2007/11 (refer to section 1.1.3).

Revised tax treaties

The revised DTA with Switzerland, applicable in the 2015 year, reflects the Government and G20 commitment to international tax integrity.

On 12 November 2015, a revised tax treaty was also signed between Australia and Germany. This is the first Australian tax treaty in the new Organisation for Economic Co-operation and Development (OECD) base erosion and profit shifting (BEPS) environment and puts into effect some of the BEPS recommendations. Key features of the revised treaty relevant to the shipping industry include:

The definition of royalty no longer includes payments for the use or right to use industrial, commercial or scientific equipment

The updated definition of “permanent establishment” only deems a sublessor to be carrying on a business

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2 McDermott Industries (Aust) Pty Ltd v FC of T [2005] FCAFC 67
through an Australian PE where the sublessor “operates substantial equipment” in Australia for more than 183 days in any 12-month period.

1.1.3 ATO activity impacting shipping companies

Application of the decision in the McDermott case

During 2005, the Full Federal Court handed down a decision in the McDermott case. This dealt with a Singapore company that bareboat chartered (i.e., an equipment lease) a barge to a related Australian company for use in Australia. The Court determined that, while the charter payments constituted a royalty for Australian tax purposes, the Australian company was not required to withhold royalty tax. The Court found that the use of the barge in Australia resulted in the Singaporean company having a PE for the purposes of the Australia-Singapore DTA.

Some current Australian DTAs (including the Singapore DTA) deem a foreign resident to have a PE and to carry on business through that PE where substantial equipment is used in Australia “by, for or under contract with” the foreign resident. Where such a PE exists, Australia’s DTAs generally prevent Australia from imposing royalty withholding tax (as the income of the PE is subject to 30% Australian tax on a net assessment basis). In this regard, Australia’s current approach to DTAs is to exclude equipment leasing from the definition of royalty such that withholding tax will not be levied. This approach is reflected in the US, UK and Norwegian DTAs, as well as the more recent Swiss and German DTAs. The court also commented that the shipping article was not applicable, as the barge was not a ship for its purposes.

Public rulings on vessel leasing structures

Over the last decade, the ATO has released several rulings relating to the treatment of shipping and vessel leasing operations, outlining its view of how both domestic Australian tax law and DTAs apply to such arrangements. These rulings include TR 2003/2, TR 2006/1, TR 2007/10, TR 2007/11, TR 2008/8 and TR 2014/2.

As a result of these rulings, there is now greater clarity regarding the approach the ATO is likely to take in considering the Australian tax implications of vessel leasing arrangements as well as the use of ships for transport and non-transport operations.

A central theme in these rulings is that the ATO will determine the implications of an arrangement by its substance rather than its legal form. For example, if a Baltic and International Maritime Council (BIMCO) time charter arrangement is in substance a true bareboat charter (i.e., a contract for the lease of equipment, albeit with, for example, supernumerary crew), the ATO is likely to characterize the payments as a royalty. As such, care needs to be exercised in relation to the tax implications where payments (e.g., royalties, payments for services) are made to a non-Australian resident relating to a vessel located in Australian waters.

The tax implications for the parties will depend on a number of circumstances, including the substance of the arrangement, the nature of the activity undertaken, the degree of activity required and whether any of the parties have an Australian PE.

As a result of the ATO’s interpretation in TR 2008/8, there is the potential for non-transport activities aboard a ship in Australian waters to be captured by the Australian tax net, despite not giving rise to a PE for the purpose of the treaty.

Summary of general characterization of charter party contracts

<table>
<thead>
<tr>
<th>Substance of arrangement</th>
<th>Character of income</th>
<th>Royalty withholding tax*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment lease (e.g., a true demise or bareboat charter or dry lease)**</td>
<td>Royalty income</td>
<td></td>
</tr>
<tr>
<td>Provision of service (e.g., a true time charter party or wet lease)</td>
<td>Fee for services</td>
<td>N/A</td>
</tr>
<tr>
<td>A voyage charter party</td>
<td>Fee for services</td>
<td>N/A</td>
</tr>
</tbody>
</table>
*Particular DTAs may affect the liability for royalty withholding tax, particularly if the use of the equipment results in the non-resident having an Australian PE.

**Particular DTAs (e.g., UK, USA, Norway, Switzerland, Germany) do not treat payments under equipment leases as royalties.

Focus on international transactions

In 2015, we have seen an increase in ATO review and audit activity of multinational enterprises (MNEs) operating in Australia's oil and gas sector.

Further, the ATO announced in late 2014 a more formal review of the shipping and leasing industry, in particular, focusing on lease-in, lease-out (LILO) structures. This review is ongoing, and EY was invited to comment on the first draft of the proposed guidance in January 2016.

As there is strong focus both within Australia and at a global level on the related-party dealings of multinational companies, taxpayers should pay due attention to their international related-party transactions and the effect these have on their overall level of profitability in Australia.

1.1.4 Legislative changes in 2015

On 3 December 2015, the House of Representatives and the Senate passed the Tax Laws Amendment (Combating Multinational Tax Avoidance) Bill 2015 (the Bill). The Bill introduces measures to address tax avoidance and profit shifting schemes entered into by large MNEs:

- **Multinational Anti-Avoidance Law (MAAL):** The MAAL targets instances where a local Australian subsidiary performs activities directly in connection with Australian sales made by a foreign principal which are not attributable to an Australian permanent establishment of the foreign principal. The MAAL overrides tax treaties and applies to MNEs whose annual global turnover exceeds AUD 1 billion – referred to as significant global entities (SGEs) – for income years commencing on or after 1 January 2016. The ATO is actively pursuing MNEs it considers may be impacted by the MAAL, and it is therefore recommended that MNEs consider the application of these rules to their Australian operations to the extent they have not already done so.

- **Country-by-country (CbC) reporting:** The Bill requires MNEs to lodge an annual CbC report, a master file and local file with the ATO for accounting periods commencing after 1 January 2016 (further details regarding these changes is included in section 1.1.5).

- **General Purpose Financial Reports:** The Bill included amendments to require SGEs that have an Australian presence to prepare and lodge general purpose financial statements with the ATO for income years starting from 1 July 2016 (as opposed to special purpose financial reports). It also limits a recently introduced exemption protecting majority Australian-owned private companies from the ATO’s upcoming public reporting.

- **Increased Part IVA penalties:** The Bill doubled the maximum administrative penalty that can be applied by the ATO to SGEs entering into tax avoidance schemes, including certain transfer pricing benefits obtained, where they do not have a “reasonably arguable” position. The increased penalties apply for income years commencing on or after 1 July 2015. Accordingly, the doubled base penalty for tax avoidance schemes now stands at 100%.

ATO public reporting of private company tax disclosures

From 2013, the ATO is required to publish certain income tax data in relation to corporate tax entities that report AUD100 million or more in total income in its tax return, as well as details of entities paying petroleum resources rent tax.

In December 2015, the ATO published the first installment containing tax information from the 2013-14 income year for public corporate entities with a total income of AUD100 million. The list includes for each entity its name, ABN, total income, taxable income and tax payable. Information on Australian majority owned private companies with a total income of more than AUD200 million is expected to be reported in March 2016.
1.1.5 Transfer pricing reform

Australia’s transfer pricing rules have undergone significant reform in recent years.

Under the enhanced transfer pricing rules, the onus is on the taxpayer to demonstrate that the actual conditions of its international related-party dealings are consistent with arm’s-length conditions, and as such, the taxpayer does not receive a transfer pricing benefit in the relevant income year. This requires the taxpayer to undertake an annual analysis that goes beyond testing the arm’s-length pricing of the actual related-party transactions. Reliance on an analysis of a prior year’s international related-party dealings for the latest income year is not adequate under the new transfer pricing rules.

One of the key impacts of the reform is that it effectively requires taxpayers to:

- Adopt a substance over form approach in assessing transfer pricing arrangements
- Potentially “reconstruct” a transaction between related parties if it is reasonable to conclude that independent parties dealing at arm’s length would not have entered into the arrangements that actually exist between two related parties

In this case, the ATO may seek to hypothesize an arm’s-length arrangement and then assess what a commercial outcome from those arrangements would be. It has been argued that the new “reconstruction provisions” could be interpreted as going beyond the intention of the OECD transfer pricing guidelines (i.e., to apply only in exceptional circumstances). However, guidance provided by the ATO in Taxation Ruling TR 2014/6 indicates that the reconstruction of transactions should generally only apply where a transaction is clearly uncommercial or artificial.

Documentation requirements

All taxpayers are required to comply with mandatory record-keeping requirements that explain all transactions and other acts engaged in by the taxpayer that are relevant for tax purposes, including the self-assessment requirement under the transfer pricing provisions. These records must enable an ATO officer with accounting skills to understand the essential features of the matter or matters.

For taxpayers with very simple transfer pricing arrangements, this may be limited to records evidencing the nature of the transactions and relevant calculations of the transaction amounts. However for taxpayers with complex international dealings, this will mandate the preparation of some level of functional analysis and evidence of the selection and application of an appropriate transfer pricing methodology.

Taxpayers who do not prepare transfer pricing documentation that meets the “minimum requirements” outlined in the legislation will be deemed not to have a “reasonably arguable” position (RAP) in relation to their transfer pricing arrangements. This can have significant penalty implications in the event of any subsequent transfer pricing adjustment being imposed by the ATO.

The practical difference between the “minimum requirements” and the mandatory record-keeping requirement depends on the complexity of the relevant international dealings.

The above record-keeping/documentation requirements apply equally to Australian permanent establishments of nonresident entities as they do to resident entities (i.e., transfer pricing analysis demonstrating the methodology used to assess an arm’s-length profit for the PE must be prepared, incorporating an appropriate functional analysis and selection/application of transfer pricing methodology). Tax Ruling TR 2014/8 and Practice Statement PS LA 2014/2 relating to transfer pricing documentation and penalties were released in December 2014 and describe the ATO’s expectations and interpretation of the transfer pricing law. TR 2014/8 requires the following five key questions to be considered when documenting the review of transfer pricing arrangements:

1. What are the actual conditions relevant to the matter (or matters)?
2. What are the comparable circumstances relevant to identifying the arm’s-length conditions?
3. What are the particulars of the methods used to identify the arm’s-length conditions?
4. What are the arm’s-length conditions, and is/was the transfer pricing treatment appropriate?
5. Have any material changes and updates been identified and documented?

The legislation passed in December 2015 introducing the CbC reporting requirements also requires all SGEs to lodge:

- A master file containing standardized information relevant for all group entities, with details of the global business operations, financial performance, transfer pricing policies and an overview of intangibles/financing arrangements for the group
- A local file referring specifically to financial performance and material related party transactions of the local taxpayer, along with analysis undertaken to support the pricing arrangements
- A country-by-country reporting template, including information relating to the global allocation of the MNE’s income and taxes paid together with certain indicators of the location of economic activity within the MNE group

The ATO released Law Companion Guidelines for CbC reporting in January 2016, indicating that it intends to adopt a full, simplified or short form approach to the local file transfer pricing documentation, which may require either all three of the following components, a simplified version of all three or just the local entity information, along with information on specific types of transactions specified on an inclusions list for transactions considered high risk:

- Local entity information
- Controlled transactions information
- Financial information.

Detailed guidance on this approach is expected to be released in 2016.

**Simplifying transfer pricing record-keeping**

Practice Statement PS LA 2014/3, Simplifying transfer pricing record keeping, simplifies transfer pricing record keeping for some taxpayers. A number of requirements must be met to qualify for the concessions, and while these entities are still required to self-assess their compliance with the transfer pricing provisions, there is no requirement to prepare transfer pricing documentation and the ATO will not take compliance action to examine the transfer pricing position adopted. Basic records demonstrating the calculation of transaction amounts are still required, as well as evidence of the applicability of the relevant eligibility criteria.

**Tax penalty approaches to transfer pricing adjustments**

PS LA 2014/2 sets out a process for ATO officers to follow when determining whether a tax penalty should apply in the event of a transfer pricing adjustment. If a taxpayer’s dominant purpose for entering into a scheme is to obtain a transfer pricing benefit, penalties of up to 50% apply. Where it is determined that this was not the case, penalties of up to 25% apply. Lower rates apply where the taxpayer can establish a RAP, potentially reducing penalties to 10%.

PS LA 2014/2 does not deal with penalties relating to statements, i.e., reasonable care considerations. Accordingly, these provisions must also be considered in determining a taxpayer’s potential liability, with the potential for penalties to be imposed.

Penalties for SGEs will be doubled with effect for income years commencing on or after 1 July 2015 where it is concluded that there is no Reasonably Arguable Position for the position adopted by the taxpayer.

### 1.1.6 Tax depreciation

A capital allowance regime provides deductions to taxpayers for the decline in value of depreciating assets held by taxpayers during the year. A depreciating asset is defined as an asset with a limited effective life that may be expected to decline in value over the time it is used.

The depreciation rate for a depreciating asset depends on the effective life of the asset. Taxpayers may choose to use either a reasonable estimate of the effective life or the effective life determined by the tax authority. Statutory life caps resulting in accelerated rates are provided for certain assets used in the oil and gas, petroleum and transport industries as well as for Australian-registered ships.
Taxpayers may choose the prime cost method (straight-line method) or the double-diminishing-value method (200% of the straight-line rate) for calculating the tax-deductible depreciation for all depreciable assets.

The cost of a depreciable asset is generally the amount paid by the taxpayer plus further costs incurred while the taxpayer holds the asset. A taxpayer may choose to recalculate the effective life of a depreciable asset if the effective life that was originally selected is no longer accurate as a result of market, technological or other factors.

Taxation Ruling TR 2015/2 applies from 1 July 2015 and explains the methodology used by the Commissioner of Taxation in making determinations of the effective life of depreciable assets in a range of industries including shipping. Examples of these tax depreciation rates include:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Effective life (years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vessels with a certificate under Part 2 of the Shipping Reform</td>
<td>10</td>
</tr>
<tr>
<td>(Tax Incentives) Act 2012</td>
<td></td>
</tr>
<tr>
<td>Fishing vessels (including trawlers, long liners, seiners, fin fish</td>
<td></td>
</tr>
<tr>
<td>boats, pearling boats, lobster boats, aquaculture and other fishing</td>
<td></td>
</tr>
<tr>
<td>boats):</td>
<td></td>
</tr>
<tr>
<td>• Longer than 10 meters</td>
<td>20</td>
</tr>
<tr>
<td>• Not longer than 10 meters</td>
<td>15</td>
</tr>
<tr>
<td>Offshore supply and support vessels</td>
<td>20</td>
</tr>
<tr>
<td>Passenger vessels (including cruise vessels, skippered charter vessels, vehicle and passenger ferries, semi-submersible vessels and water taxis):</td>
<td></td>
</tr>
<tr>
<td>• Longer than 10 meters</td>
<td>20</td>
</tr>
<tr>
<td>• Not longer than 10 meters</td>
<td>15</td>
</tr>
<tr>
<td>Trading ships:</td>
<td></td>
</tr>
<tr>
<td>• Bulk carriers</td>
<td>20</td>
</tr>
<tr>
<td>• Cargo ships</td>
<td>20</td>
</tr>
<tr>
<td>• Container ships</td>
<td>20</td>
</tr>
<tr>
<td>• Roll-on/roll-off ships</td>
<td>20</td>
</tr>
<tr>
<td>Tankers:</td>
<td></td>
</tr>
<tr>
<td>• Oil and chemical</td>
<td>20</td>
</tr>
<tr>
<td>• Liquefied natural gas (LNG) and liquefied petroleum gas (LPG)</td>
<td>30</td>
</tr>
<tr>
<td>Work vessels (including barges, coastal supply boats, dredges, general work boats, landing craft, launches, lighters, line boats, pilot boats, runabouts and tugboats):</td>
<td></td>
</tr>
<tr>
<td>• Longer than 10 meters</td>
<td>20</td>
</tr>
<tr>
<td>• Not longer than 10 meters</td>
<td>15</td>
</tr>
<tr>
<td>Navigation and communication assets acquired separately from the</td>
<td></td>
</tr>
<tr>
<td>vessel (including autopilots, chart plotters, depth sounders, global positioning systems, radar systems and marine radios)</td>
<td>5</td>
</tr>
</tbody>
</table>

1.2 Other Australian considerations

1.2.1 Legislative measures to attract foreign investment

Australia’s income tax law contains provisions that are intended to attract foreign investment into Australia and promote the establishment of regional holding companies in Australia. Broadly, these incentives include:
• A participation exemption for capital gains arising from the sale of foreign shareholdings to the extent that the underlying assets are active.
• The ability to pass foreign dividends and foreign branch profits through an Australian corporate structure without attracting Australian corporate tax or dividend withholding tax (conduit foreign income rules)
• Exemptions for certain dividend and profit repatriations, which adopt a substance-over-form approach
• An exemption for non-Australian residents on capital gains arising from the disposal of shares in Australian-resident companies whose underlying value is not principally derived from Australian real property
• Simplification of the rules dealing with the treatment of foreign loss and foreign tax credits

1.2.2 Consolidated groups for tax purposes
From 1 July 2002, wholly owned Australian groups may elect to form a consolidated group for income tax purposes. Generally, groups with a single common Australian-resident parent entity are able to consolidate. In addition, Australian-resident entities with a common overseas 100% ultimate owner (i.e., a holding company) may also form a consolidated group (known as a multiple entry tax consolidated group).

Consolidation is optional, but if a group decides to consolidate, all wholly owned companies and trusts must be included, where the wholly owned entity is owned by a single common Australian-resident parent or under an Australian entry point that has elected to be included in the consolidated group.

When the consolidation election is made, the head company of the group will submit a single income tax return on behalf of all of the wholly owned entities within the group. From the time of consolidation, intragroup transactions (such as asset transfers and provision of services) are disregarded, and all tax attributes (such as franking account balances and carryforward tax losses) are held at the head company level. When a subsidiary company exits the group, its losses and franking credits remain within the group.

1.2.3 Loss recoupment rules
Prior year losses may be utilized to reduce current year taxable income subject to the satisfaction of various rules, primarily maintaining continuity of majority beneficial ownership (known as the “continuity of ownership test”) or, failing that, passing the “same business test.”

1.2.4 Specific withholding regimes
The pay-as-you-go withholding rules apply to a range of payments, including those made to foreign residents for gaming and casino junkets (including on board ships) and construction and related activities taking place in Australia (e.g., activities associated with the construction, installation and upgrading of plant and equipment).

Under the rules, the payer (generally an Australian resident) is required to withhold and remit a non-final withholding regardless of whether the underlying income is taxed in Australia in the hands of the recipient or is exempt (e.g., under DTA as business profits). These withholding rules also apply in addition to the traditional regimes, impacting royalties, interest and dividends, and may catch, for example, subsea services provided in Australian waters by a non-Australian resident provider.

1.2.5 Taxation of financial arrangements
Foreign exchange gains and losses
The taxation of financial arrangements (TOFA) rules provide a comprehensive framework for the taxation of foreign exchange gains and losses arising from foreign currency transactions. The TOFA rules set out a number of different events that give rise to realized gains (taxable) and losses (deductible) for tax purposes. Special rules also apply to foreign currency bank accounts.

The TOFA rules contain tax functional currency rules. An entity that maintains its accounts predominantly in a foreign currency may elect to determine its income and deductions in that currency, with the net result being converted into Australian currency for the purposes of calculating the entity’s Australian income tax

3 However, interests in partnerships or entities that are treated similarly to a partnership for tax purposes (e.g., US LLCs) may not always benefit from this exemption.
liability. This concession is especially relevant for non-Australian residents required to report to the ATO and pay Australian tax.

Taxation of financial arrangements

These rules provide for the tax recognition over time of gains and losses from financial arrangements. The default accruals and realization methods are supplemented by various elective methods using accounting approaches with respect to certain financial assets. The elective accounting methods available for specified financial arrangements include hedge treatment, fair value reporting, re-translation for foreign currency arrangements and, in certain cases, using the values in financial reports for the financial arrangements.

These laws apply to affected taxpayers (broadly, those with assets over AUD300 million or annual turnover over AUD100 million, or financial institutions with turnover over AUD20 million or holdings of prescribed tax deferred securities). These reforms apply in respect of financial arrangements first held in income years commencing on or after 1 July 2010.

1.2.6 Resource taxation

Petroleum resources rent tax, state-based royalties and excise can apply to Australian petroleum projects. The applicable resource taxation regime depends on various factors, for example location of the project and commodity produced. We refer you to the Australian section in EY’s Global Oil and Gas Guide for further information on this regime.

1.3 Other Australian taxes

1.3.1 Goods and services tax

Australia has a goods and services tax (GST) that is applied to most goods and services connected with the indirect tax zone of Australia (i.e., goods imported into Australia or goods installed or assembled in Australia), which is levied at a rate of 10%. A shipping entity that is registered for GST can generally claim back input tax credits for GST incurred on acquisitions provided the acquisitions were made for a creditable purpose (i.e., the acquisition was acquired in carrying on an enterprise and must not relate to making supplies that would be input taxed or of a private or domestic nature).

Most goods imported into the indirect tax zone are subject to GST. Where a shipping entity imports goods into the indirect tax zone and the import qualifies as a taxable importation, GST is prima facie payable by the shipping entity at the time of importation. The shipping entity can then claim an input tax credit for the GST paid on the importation provided it is registered for GST and the importation was for a creditable purpose.

Approved importers can use the deferred GST scheme, which enables those importers to defer the GST otherwise payable on importation until the first business activity statement is submitted after the goods are imported. In most cases, this deferral means that no GST is payable, as a corresponding input tax credit can be claimed in the same return.

GST-free status is usually applied to exports of goods, international transport, associated insurance and arranging transport and export services. While GST-free supplies are not subject to GST, the supplier may still claim input tax credits incurred on acquisitions connected with the supply.

1.3.2 Import duties

All goods imported into Australia are subject to classification and the potential to attract customs import duty. Rates of duty align specifically with tariff classifications, and although many goods attract duty at the rate of 0%, generally where duty is payable on non-excisable goods, the rate will be 5%. For example, vessels exceeding 150 gross construction tons attract duty at a rate of 0%, whereas vessels that are 150 tons or less attract duty at the 5% rate.

Rates of customs duty for non-excisable goods are applied to the customs value of those goods, which generally reflects the FOB (free on board) value. Where duty is payable on non-excisable goods, opportunities may exist to reduce or remove the tariff. Preferential treatment may be secured where goods originate from countries with which Australia has a trade agreement, or concessional treatment may be
secured where substitutable goods are unavailable from Australian supply.

Excisable goods, such as petroleum products, alcohol and tobacco, attract excise-equivalent customs duty upon importation to Australia. That is, the import duty reflects the excise duty payable on such goods produced in Australia. Import duty for such products is calculated on quantity rather than value. For example, diesel and petrol imported into Australia currently attract duty at a rate of AUD0.395 per liter (effective from 1 February 2016). This rate of duty will change with indexation twice yearly, in February and August.

Excise-equivalent import duty paid on liquid fuels, such as bunkers, can be recovered as a fuel tax credit (FTC). FTCs are claimed on a business activity statement, and as such, claimants (or agents in some cases) must be registered with the ATO for goods and services tax. Excise-equivalent duty paid on other goods that are subsequently exported from Australia may be recovered by claiming a drawback. Claims must be made through the ATO within 12 months of exporting the goods.

1.3.3 Stamp duty

The various stamp duty acts may also apply to certain transactions involving vessels (e.g., acquisition or transfer of vessels or other business assets). Stamp duty is a state-based tax and therefore the implications essentially depend upon the State or Territory of Australia in which the vessels are located. Some jurisdictions specifically exempt duty on the transfer of vessels, while others may seek to impose duty if a vessel is transferred with other dutiable property, such as goodwill or benefits of contracts. The duty implications would therefore depend on the nature of the transaction and the jurisdiction(s) in question.

Australian stamp duty is generally not payable on the transfer of a vessel, where the vessel is not situated within the relevant jurisdiction's territorial waters at the time of the transaction.

While the transfer of a vessel may not necessarily be liable to duty, there may be stamp duty implications arising from the transfer of the business undertaken by the vessel. For example, if goodwill and/or a contract to supply goods or provides services to an Australian customer is also transferred, these assets may be subject to stamp duty in Australia.

1.3.4 Employment taxes

Salaries and wages and noncash benefits paid or provided to employees have the potential to attract a range of taxes in Australia, including:

Pay-as-you-go tax (PAYG) is withheld at various rates from payment of salary and wages to employees where those payments are taxable in Australia. The rate of withholding is affected by the tax residence of the individual.

Fringe benefits tax (FBT) is payable by the employer at 49% of the grossed-up value of certain noncash benefits provided to employees, with broadly an offsetting corporate tax deduction for the FBT paid.

Payroll tax is generally payable at 4.75% to 6.85% of wages paid to employees and, in some cases, contractors. Companies may be entitled to an annual payroll tax exemption between AUD550,000 and AUD1.85 million, depending on the state or territory where the services are performed or the wages are paid. When a company is related to another company (e.g., as a parent or subsidiary or by reason of common directors, common employees or shared ownership), the companies may be grouped for the purposes of calculating their payroll tax liability and may only determine their annual exemption entitlement on the basis of the total wages of the group.

Superannuation is conceptually equivalent to pension support. Employer contributions are required to be made to a complying superannuation fund at 9.5% (up to a capped amount) of ordinary time earnings paid to employees and, in some cases, contractors. An exemption may apply depending on the location of services, the activities undertaken by the vessel and tax residence of the individual. This contribution is set to increase progressively to 12% from 1 July 2021 onwards.

Whether the above taxes apply will depend on a number of factors, including:

- For income tax and FBT, whether Australia has negotiated a DTA with the country in which the employee is considered a tax resident
For income tax and FBT, whether the “economic” employer is an Australian resident entity or has a PE in Australia and the number of days that the employee works in Australian territorial waters in a 12-month period

- The location of the work:
- For payroll tax purposes, work undertaken at a location that is more than a specified distance from the Australian territorial sea baseline may be exempt.

In addition to the above, employers may be required to obtain workers' compensation insurance in relation to seafarers.

1.3.5 Visa consideration for foreign crew members

Generally, all noncitizens entering Australia must hold a valid visa to enter and work in Australia. Currently, the Australian visa framework provides the following three types of temporary visas to allow foreign workers to perform work in Australian waters (including Australia's exclusive economic zone):

- Maritime crew subclass 988 allows foreign maritime crew on non-military ships to work on the ship in Australian waters, with the flexibility of multiple entries over three years.
- Temporary work (skilled) subclass 457 allows foreign workers to live and work in Australia, with the flexibility of multiple entries and visa validity that may be granted for up to four years (visa is subject to sponsorship by a direct employer with the proposed role and visa applicant meeting various criteria).
- Temporary work (short stay activity) subclass 400 allows foreign workers to undertake short-term work that is highly specialized (the usual standard is a three-month stay visa, unless supported by evidence that the visa could be granted for a maximum of six months, with either a single or multiple entry facility at the discretion of the assessing officer).

Visa considerations are complex for foreign nationals working on vessels within Australian waters. The type of work visa required will depend on the location, nature and duration of the work to be performed. It is also important to consider the type of offshore resources installation or vessel upon which the work will be performed. Sanctions may be imposed on employers and foreign workers may have their visas canceled where there has been inadequate compliance with Australian immigration law. In particular, employers may face penalties, including fines, if the seaport immigration authority is not satisfied that a foreign crew member holds the correct visa to work on the vessel or to be cleared for entry into Australia.

2. Human capital issues

2.1 Formalities for hiring personnel

Australia has moved from a system of organized employment to company-based employment. Employers can choose their employees subject to the relevant qualifications. Although union membership is voluntary, given the historic importance of the unions in the industry, employers should be prepared to work with them.

Legislation exists that deals with issues including unfair dismissal, bargaining in relation to enterprise agreements and dispute resolution. Employees and employers are also subject to the National Employment Standards (NES), which require national system employers to provide minimum employee entitlements to their employees, including annual leave, personal leave, notice of termination and redundancy pay. In addition, a modern award framework (including the Seagoing Industry Award 2010) operates that requires certain employers to provide additional employee entitlements (such as allowances, overtime and leave loading) to certain industry employees and/or employees of a certain occupation.

This legislation applies to Australian ships and some foreign-flagged ships operating in Australia's territorial seas, extending to those that are operating pursuant to a license or permit while the ship is in the exclusive economic zone or in the waters above the continental shelf of Australia.

2.2 National labor law

Australia's labor laws apply to all Australian-flagged vessels as well as internationally flagged vessels that
carry Australian domestic cargo on a permit issued under the Navigation Act 2012.

All personnel (including international seafarers on Australian-regulated ships and personnel who work on and/or supply offshore oil and gas facilities) who are required to work unmonitored in a maritime security zone must hold a Maritime Security Identification Card (MSIC). This card identifies an individual who has been the subject of a background check and is valid for five years.

2.3 Regulations on employing personnel
Employees on Australian-flagged vessels need to be residents of Australia (although not necessarily citizens) who have marine qualifications from the Australian Maritime Safety Authority (AMSA) or overseas qualifications recognized as an equivalent by the AMSA.

Vessels involved in coastal trade (whether Australian- or foreign-flagged) must obtain a license to trade. One of the requirements of that license is that the owner pays Australian wages to the crew. Marine qualification services are provided through nine centers around Australia.

To qualify for an AMSA marine qualification, seafarers must complete an approved course of study. These are conducted at the Australia Maritime College in Launceston, Tasmania, and at technical and further education institutes and colleges in Fremantle, Newcastle and Sydney. Additionally, for issue of a certificate of competence, the trainee has to pass an oral examination conducted by AMSA examiners on operational knowledge and critical skills.

Overseas qualifications
All crew members on Australian ships are required to hold an Australian marine qualification relevant to their duties. The AMSA assesses marine qualifications issued overseas to foreign residents who wish to migrate to Australia and require Australian qualifications to work on Australian ships.

2.4 Treaties relating to social security contributions
Social security treaties regarding double superannuation coverage have been negotiated with Austria, Belgium, Chile, Croatia, Czech Republic, Denmark, Finland, Germany, Greece, Hungary, India, Ireland, Japan, Korea, Latvia, the former Yugoslav Republic of Macedonia, the Netherlands, Norway, Poland, Portugal, Slovak Republic, Switzerland and the United States. Reciprocal health agreements have been negotiated with Belgium, Finland, Ireland, Italy, Malta, the Netherlands, New Zealand, Norway, Slovenia, Sweden and the United Kingdom.

2.5 Manning issues with flying the Australian flag
Australian-flagged vessels are subject to Australian pilotage where the vessel exceeds 24 meters in tonnage length.

3. Corporate structure

3.1 Most commonly used legal structure for shipping activities
The most commonly used legal structure for the operation of shipping activities is a limited liability corporation, known in Australia as a proprietary limited (Pty Ltd) company.

3.2 Taxation of profit distributions
The current corporate tax rate of 30% generally applies to shipping companies. Distributions of profits by way of dividends that have been subject to corporate tax at the corporate level (i.e., franked) are generally not subject to further Australian tax when paid to a corporate shareholder. For resident shareholders, a credit for the tax paid in respect of underlying profits will be available, and nonresident shareholders are entitled to an exemption from Australian dividend withholding tax.

If a company makes a distribution of untaxed or unfranked profits (for example, income subject to income tax concessions or tax timing differences), and the amount is not declared to be conduit foreign income (refer below), the tax outcome depends on the status of the shareholder. The status includes the tax residence and
legal character of the shareholder and that shareholder's percentage of shareholding. Australian-resident shareholders generally pay tax at the corporate rate or at the applicable individual rates (up to 49% for the 2015 income year). Non-Australian resident shareholders will be taxed at a dividend withholding tax rate of 30% unless the relevant DTA provides for a lower rate (in the range of 0% to 15%), depending on a range of factors. Where a company receives conduit foreign income (broadly, foreign income that is not taxed in Australia), the company may declare some of the unfranked distribution to be conduit foreign income. In this circumstance similar tax outcomes would arise for the nonresident shareholder as arises with a franked distribution.

A nonresident company carrying on business in Australia can repatriate profits without any branch profits tax. However, if that nonresident company pays a dividend out of those Australian-sourced profits to another nonresident, its shareholder may be subject to Australian income tax, subject to the operation of the relevant DTA.

4. Grants and incentives

4.1 Specific and/or general subsidies available to shipping companies

No specific incentives are available for shipping companies. There is a government system that provides shipping subsidies and applies to the shipping of certain goods and cargo between the mainland of Australia and Tasmania such as the Tasmanian Freight Equalization Scheme. This scheme was designed to alleviate the sea freight cost disadvantage incurred by such shippers by recognizing that these entities do not have the option of transporting goods interstate by road or rail.

4.2 Investment incentives for shipping companies and the shipbuilding industry

There are no other specific incentives currently available to the shipbuilding industry. However, there are general tax incentive programs designed to encourage research and development (R&D) activities in Australia. A number of other general innovation grants may be accessible.

The R&D tax incentive provides eligible companies (with annual aggregated turnover of over AUD20 million) with a 40% tax credit on expenditure on eligible R&D activities and a cash refundable 45% tax credit for smaller companies (with annual aggregated turnover of less than AUD20 million). A number of requirements must be met to claim the R&D tax incentive.

Further, from 1 July 2014, annual R&D tax incentive claims are limited to AUD100 million of R&D expenditure per tax consolidated group. The Government has also announced its intention to reduce the R&D tax offset rates from 1 July 2014, however at the time of publishing these changes had not become law.

4.3 The fuel tax credits scheme

Entities that import taxable liquid fuel into Australia or purchase it domestically for use in a business activity may be eligible to claim FTCs. These are a rebate of the fuel tax component of the overall price paid for fuel, being either the excise duty or the excise-equivalent import duty. The fuel tax rate as at 1 February 2016 is AUD 0.395 per liter for most liquid fuels, including diesel and petrol.

FTC entitlements are claimed through the business activity statement (BAS), and entities or agents seeking to make a claim must be registered with the ATO for both GST and FTCs. Importantly, a claim for FTCs can be made based on intended use. Where actual use of the fuel differs from the intended use, amendments are made in subsequent BAS submissions.

Certain criteria must be met before claiming FTCs, including establishing the eligibility of the fuel, the eligibility of the business activity in which fuel will be or has been consumed, and the rights of the claimant to the entitlement. Entities are entitled to make a claim for FTCs up to four years after taxable fuel was acquired. Records supporting FTC claims must be kept for a minimum of five years from the date of the claim.

Australia has recently reintroduced indexation in relation to fuel tax. As such the rate of fuel tax will be adjusted on a biannual basis, in February and August. FTCs are claimed at the rate applicable at the time fuel is purchased, imported, or otherwise acquired.
5. General information

5.1 Infrastructure

5.1.1 Australian ports

The major and some minor Australian ports include the following:

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<tr>
<th>Name of port</th>
<th>Location of port</th>
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<tr>
<td>Botany Bay</td>
<td>New South Wales</td>
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<td>Eden</td>
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<td>Kurnell</td>
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<td>Lord Howe Island</td>
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<td>Newcastle</td>
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<td>Port Kembla</td>
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<td>Sydney Harbour</td>
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<td>Yamba</td>
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<td>Bing Bong</td>
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<td>Onslow</td>
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<td>Port Exmouth</td>
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<td>Port Hedland</td>
<td>Western Australia</td>
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5.1.2 Support services for the shipping industry
The following support services for the shipping industry are readily available: banks with a shipping desk, consulting firms specializing in shipping, maritime law services, and insurance brokers for the shipping industry.

5.1.3 Maritime education
Maritime education is provided by Australian Maritime College – Launceston, Tasmania, and technical and further education institutes and colleges in Fremantle, Newcastle and Sydney.

5.2 Safety and environmental issues
5.2.1 Implementation of the International Safety Management Code on board vessels
The AMSA is responsible for issuing the International Safety Management (ISM) Code certification for Australian registered vessel.

5.2.2 The International Organization for Standardization 9001:2008 certificate
Most large trading vessels applied for certification under International Organization for Standardization (ISO) through the Det Norske Veritas or Lloyd’s Register system. Such certification is in addition to the ISM Code, which provides the minimum requirements regarding safety on board a vessel.

5.2.3 Safety rules regarding manning
Australia has relatively strict rules regarding manning.

5.2.4 Special regulations on safety and the environment
Australia has signed the International Convention for the Safety of Life at Sea and the Marine Pollution Convention. Regulations regarding safety and the environment reflect the obligations under these conventions.

Australia has, in the past, announced that ships (in particular those built after 1 January 2015) containing asbestos or those that have not been checked for toxic substances could be turned away from Australian shores.

Requirements prohibit the discharge of garbage waste into the sea from ships, except in very limited circumstances. Marine Notice 6/2012 outlines these changes, among others, in relation to revised garbage discharge regulations for ships.

5.2.5 Australian Maritime Safety Authority
The AMSA is the national safety regulator for all commercial shipping in Australian waters.

5.2.6 The National Plan
The AMSA manages Australia's National Plan for Maritime Environmental Emergencies (National Plan). The National Plan aims to minimize environmental impacts on the Australian community, cultural and heritage resources, the environment and the economy and infrastructure resulting from maritime emergencies.

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<th>Name of port</th>
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<td>Port Walcott</td>
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<td>Thevenard Island &amp; Saladin Marine Terminal</td>
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<td>Port of Christmas Island</td>
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<td>Cocos</td>
<td>Cocos (Keeling) Island</td>
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To do so, the National Plan sets out national arrangements, policies and principles for the management of maritime environmental emergencies.

The AMSA works together with Commonwealth, State and Northern Territory (NT) governments, the shipping, ports, oil, salvage, exploration and chemical industries, and emergency services, to maximize Australia's marine pollution response capability.

5.3 Registration

Australia has two shipping registers:

- The Australian General Register is primarily used by domestic vessels and Australian vessels with international certification that are required to be registered.
- The Australian International Shipping Register (AISR) is open to international trading ships that meet specific criteria. The purpose of the AISR is to provide a register that is a competitive alternative to other registers and is available to Australian companies that own or operate ships.

5.3.1 Australian General Register

Registration requirements

All Australian-owned commercial ships of 24 meters and over in tonnage length and capable of navigating the high seas must be registered as well as any ship undertaking an overseas voyage, regardless of size.

All other craft, including government ships and fishing and pleasure craft, need not be registered, but may be if the owners desire. In this regard, an Australian citizen or body corporate established under Australian corporate law can apply to have a ship registered, provided it is:

- Owned by an Australian national or nationals
- Owned by three or more persons as joint owners where the majority of owners are Australian nationals
- Owned in common where more than half the shares are owned by Australian nationals

Flagging

Registered commercial ships over 24 meters in tonnage length must fly the Australian Red Ensign. All other registered ships have the choice of flying either the Australian national flag or the Red Ensign. An unregistered Australian-owned ship can be issued with a certificate entitling it to fly either flag.

After registration

Once a ship has been registered, the owner or registered agent must comply with the requirements in both the law and regulations. The registrar must be informed of the following:

- If it is intended to change the name or home port of the ship or if there is any change in the name or address of the owner or registered agent
- If the ship or a share in the ship is sold
- If any alterations are made to the ship
- If the registration certificate is lost or destroyed
- If the ship is lost or destroyed

The law provides heavy penalties for noncompliance. The rules apply until a ship has been removed from the register – for example, through loss – or after it has been sold to foreign nationals. In the case of ships that are not required to be registered, the registered owner may remove the ship from the register at any time.

Ship registration procedure

Ships that were originally registered in Australia under the British system (before 1982) were automatically transferred to the new register subject to nationality eligibility at the time of changeover.

Applications can be made in person or through the mail at the Shipping Registration Office in Canberra or at any office of the AMSA.

Marking and measuring

*Information in this section has been obtained from the Australian Maritime Safety Authority website.*
A ship will not be registered unless it has been marked with its official number, its tonnage or length overall, its name, and its home port.

Registration of ships that are intended to go on international voyages and that are 24 meters and over in tonnage length is not possible unless the tonnage has been measured in accordance with the relevant law.

5.3.2 AISR

The AISR was established on 1 July 2012 to provide a competitive alternative to other registers. As with the Australian General Register, the AMSA will regulate vessels on the AISR. The AISR will require vessel owners or operators to meet ownership requirements or provide evidence that the ship is being operated by an Australian entity under a demise charter.

Inclusion on the AISR will be a discretionary option for owners and operators (the vessel would otherwise be registered on the Australian General Register). The AMSA will have the discretion to decide whether to permit a ship to be registered. This process is intended to ensure ships are of an appropriate standard.

Consistent with the operation of other international registers, vessels on the AISR will be permitted to operate with mixed crews with the majority of officers and crew not required to be Australian citizens or residents. This reflects the global nature of shipping, with crew drawn from across the world. However, at least two senior positions (engineering and deck officers) are to be filled by Australians.

To ensure that the AISR is competitive, international labor terms and conditions will apply to seafarers working on board ships registered in the AISR while they are engaged in international trading. A minimum safety net is provided through the application of the International Labour Organization’s (ILO) Maritime Labour Convention 2006 (MLC), which Australia has ratified.

In addition, ships on the AISR will have access to a range of tax incentives to ensure the register is competitive with other registers.

5.3.3 How to register

Ships eligible for entry on the AISR must be at least 24 meters in tonnage length and are trading ships that are either:

- Australian-owned
- Wholly owned by Australian residents, or by Australian residents and Australian nationals
- Operated solely by Australian residents, Australian nationals, or both
- On demise charter to Australian based operators

5.3.4 Benefits to registering on AISR

The AISR aims to facilitate Australian participation in international trade, facilitate the long-term growth of the Australian shipping industry by being an internationally competitive register, and promote the enhancement and viability of the Australian maritime skills base in the Australian shipping industry.

Benefits offered by registering with AISR include the following:

- Registrants have access to the benefits of shipping tax reforms.
- Vessels are permitted to operate with mixed crews with majority of officers and crew not required to be Australian citizens or residents. However, at least two senior positions (engineering and deck officers) are to be filled by Australians.
- International labor terms and conditions will apply to seafarers working on ships registered with AISR, while they are engaged in international trading.

Ships registered on the AISR are required to have a collective agreement with the seafarers’ bargaining unit.
Barbados

1. Tax

1.1 Tax facilities for shipping companies

Barbados legislation provides three different corporate vehicles that can be used for shipping activities. The tax incentives are briefly outlined below:

- Shipping corporations incorporated under the Shipping Corporation Act (SCA) are limited to the following activities:
  - Owning and/or operating ships
  - Doing such other things as are necessary and incidental to the ownership and operation of such ships
  - Holding shares or other equity interests in foreign entities that are established for the purpose of owning and/or operating ships

Shipping corporations may carry on business, conduct their affairs and exercise their powers in any jurisdiction outside Barbados.

A company incorporated under the SCA is not subject to corporate tax in Barbados. In addition, Barbados does not impose tax on capital gains.

Shipping corporations are exempt from withholding tax on most payments made to nonresidents.

International Business Companies (IBCs) licensed under the IBC Act conduct a wide range of business activities but must not do business within Barbados.

IBCs are liable for corporate tax on their worldwide income at the following rates:

- 2.5% on all profits and gains up to US$5 million
- 2% on all profits and gains exceeding US$5,000,000 but not exceeding US$10 million
- 1.5% on all profits and gains exceeding US$10 million but not exceeding US$15 million
- 0.25% on all profits and gains in excess of US$15 million

IBCs may elect to take a credit in respect of taxes paid in a country other than Barbados. This credit cannot reduce the tax payable in Barbados to a rate less than 0.25% on the profits and gains for an income year.

IBCs are exempt from withholding tax on management fees, royalties, interest, dividends and fees paid to a nonresident.

No tax is imposed in respect to the transfer of most assets.

IBCs have access to most of the Barbados tax treaties.

- Regular Barbados Companies (RBCs) incorporated under the Barbados Companies Act (BCA) and tax residents in Barbados are liable for corporate tax on their worldwide income at the rate of 25%.

RBCs can be used to provide qualifying overseas professional services to residents outside the Caribbean Community (CARICOM) market. Under Barbados' domestic tax legislation, the term “qualifying overseas professional services” includes, among others, shipping activities.

When income is derived from the provision of qualifying overseas professional services, in computing the tax payable on such income, a foreign currency earning credit (FCEC) would be applied against the tax otherwise payable. The application of the FCEC can reduce the effective corporate tax rate to as low as 1.75%.

Dividends made by an RBC out of foreign-sourced income are exempt from withholding tax in Barbados.

RBCs can benefit from all the Barbados tax treaties.

1.2 Tonnage tax regime

Barbados does not have a tonnage tax regime.
1.3 **Tax facilities for seafarers**
No personal tax or social security obligations should arise.

1.4 **Tax treaties and place of effective management**
Barbados has entered into tax treaties with the following countries and entities: Austria, Bahrain, Botswana, Canada, CARICOM, China, Cuba, Czech Republic, Finland, Iceland, Luxembourg, Malta, Mauritius, Mexico, Netherlands, Norway, Panama, San Marino, Seychelles, Singapore, Spain, Sweden, Switzerland, United Kingdom, United States and Venezuela.

Barbados has signed treaties that have yet to come in force with the following countries: Ghana, Portugal, Qatar, Slovakia, United Arab Emirates.

Barbados has signed bilateral investment treaties with the following countries: Belgium, Canada, China, Cuba, Germany, Italy, Mauritius, Switzerland, United Kingdom, United States and Venezuela.

1.5 **Freight taxes**
Barbados does not levy freight taxes.

1.6 **Special vessel registration benefits for shipowners**
There are no tax registration benefits.

1.7 **Changes to tax law anticipated in the near future**
No changes are expected in the near future.

2. **Human capital**

2.1 **Formalities for hiring personnel**
The Barbados Shipping Act (BSA) does not impose restrictions on the nationality of the master, officers or crew. No work permit is required.

The master of every Barbadian ship shall enter into an agreement with every seaman whom he engages as one of his crew. Crew agreements should be in accordance with the provisions of the BSA and in the form determined by the Principal Registrar, who is based in London.

Upon the execution of a crew agreement, the master shall inform the Principal Registrar of the name, grade and number of the certificate and endorsement of each officer employed on the ship, including himself.

2.2 **National labor law**
Crew members of Barbadian ships are subject to the provisions of the BSA.

2.3 **Regulations on employing personnel**
Officers must hold either a certificate or an endorsement issued under the BSA of a grade appropriate to their rank. Ratings must obtain a certificate of competency from the Principal Registrar.

Officers and ratings must hold a valid medical certificate of competency complying with the Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW) 78/95 and a valid medical certificate allowing the issuance of the Barbados Officers Endorsement Document.

2.4 **Collective labor agreements**
There is no obligation to have a collective labor agreement.

2.5 **Manning issues of registering a ship in Barbados**
The manning scale for the size and type of ship is subject to the approval of the Principal Registrar, who will issue the Minimum Safe Manning Certificate.
3. Corporate structure

3.1 Most commonly used legal structures for shipping activities
The most commonly used legal structures for the operation of shipping activities are the Shipping Corporations and IBCs. The RBC structures have been recently introduced in legislation. This vehicle is expected to be popular in the future due to the fact that it qualifies for treaty purposes.

3.2 Taxation of profits distribution
Under domestic law, there is no taxation on profit distributions derived from foreign-sourced income, other than portfolio investment.

4. Grants and incentives

4.1 Specific and/or general subsidies available to shipping companies
There are no subsidies for shipping companies.

4.2 Investment incentives for shipping companies and the shipbuilding industry
There are no investment incentives.

4.3 Special incentives for environmental awareness
There are no special incentives for environmental awareness.

4.4 Issues with flying the Barbados flag
The Barbados flag enjoys the status of being on the Paris Memorandum of Understanding on Port State Control (MOU) White List and the US Coast Guard QUALSHIP 21, thereby lessening the controls on ships flying the Barbados flag.

4.5 Major changes in shipping subsidy legislation in the near future
No major changes are expected in the near future.

5. General Information

5.1 Infrastructure

5.1.1 Major ports
- Deep Water Harbour
- Port St. Charles
- Port Ferdinand

5.1.2 Port facilities
The following facilities are available:
- Stevedoring
- Storage
- Tugboats
- Lifts and cranes
- Bunkering
- Fresh water
- Garbage disposal
- Medical services
5.1.3 Support services for shipping industry

- Ship agents
- Surveyors
- Maritime law services
- Although Barbados banks do not have specialized shipping desks, the Barbados branches of well-established international banks are equipped to deal with shipping companies.

5.1.4 Maritime education

Maritime education is provided by the Caribbean Maritime Institute located in Kingston, Jamaica. This institution has been recognized by CARICOM as the leading center for maritime education, training, research and consultancy.

5.2 Safety and environmental issues

5.2.1 Implementation of the International Safety Management Code on board vessels

Owners and managers of Barbados-registered ships of 500 gross registered tons or more are required to comply with the International Safety Management (ISM) Code.

5.2.2 Safety rules regarding manning

The safety rules regarding manning may be characterized as quite strict. Most of the maritime legislation (particularly on safety issues) is set out in the BSA and regulations made under the same Act.

5.2.3 Special regulations on safety and the environment

Barbados is party to most International Maritime Organization (IMO) conventions on safety and the environment. In addition, Barbados enacted the Shipping Oil Pollution Act (SOPA), which establishes a code of regulations, enforcement procedures and liabilities for the discharge of oil anywhere in the world by Barbados-registered ships.

5.3 Registration

5.3.1 Registration requirements

The headquarters of the Barbados Maritime Ship Registry (BMSR) are based in London, England. The procedure for registration of ships under the Barbados flag is simple and straightforward.

A ship qualifies for registration if it is owned by an individual who is a Barbados or a CARICOM citizen, or a company incorporated in Barbados or in CARICOM. In addition, foreign-going ships and near coastal trade ships of 150 gross registered tons or more may, regardless of the nationality of the owners, be approved for registration.

The BMSR operates a separate Yacht Registry open to all yachts carrying 12 persons or fewer. Ships older than 20 years are restricted from registration.

5.3.2 Ship registration procedure

Provisional registration:

Provisional Certificates may be issued by the Principal Registrar or by any Registrar appointed by him in different ports around the world.

To obtain a Provisional Certificate, the owners shall provide the following:

- Certificate of Registration
- Notice of Name proposed for a Barbados ship
- Particulars of the ship
- Copies of Bill of Sale or Builder’s Certificate
- Copies of the incorporation documents of owner
- Details of the master
 Confirmation of Class
The Provisional Certificate will be valid for a period of six months from the date of issue. During this period of time, Permanent Registration must be completed.

Permanent registration:
Permanent Registration takes place either in London or Bridgetown.

To obtain a Provisional Certificate, the owners shall provide the following:

- Approved Notice of Name
- Appointment of authorized officer
- Certified copies of Bill of Sale or Builder’s Certificate
- Declaration of ownership
- Certified copies of incorporation documents
- Managing Owner Declaration
- Cancellation from previous registry
- Protection & Indemnity (P&I) Cover
- Former Tonnage Measurement Certificate
- Safety of Life at Sea (SOLAS), Load Line and International Convention for the Prevention of Pollution from Ships (MARPOL) Certificates
- Descriptive Particulars Survey Certificate
- Radio Accounting Authority (AAIC) with application and particulars for radio station license
- Minimum Safe Manning Proposal
- Registration and annual fee

Subsequently, the owner will receive a Ship’s Carving and Marking Note, which has to be completed by the Classification Society’s surveyor and then returned to the Principal Registrar.

5.3.3 Parallel registration
The BSA provides for bareboat charter registration of foreign-registered ships under the Barbados flag. Bareboat charter registration shall apply for the duration of the Bareboat charter, and no mortgage instrument shall be recorded before the registry in respect of any bareboat-chartered ship registered under the laws of a foreign country.

The BSA also provides for the bareboat charter registration of Barbados ships under a foreign flag as long as the ship is registered as a Barbados ship under the BSA and the bareboat charter registry where the ship is to be registered is a compatible registry. No mortgage instruments shall be recorded against those ships in the foreign registries.

5.3.4 Requirements for the officers and crew serving on vessels
The BSA does not impose restrictions on the nationality of the master, officers or crew. No work permit is required.

Officers must hold either a certificate or an endorsement issued under the BSA of a grade appropriate to their rank. Ratings must obtain a certificate of competency from the Principal Registrar.

Officers and ratings must hold a valid medical certificate of competency complying with STCW 78/95 and a valid medical certificate allowing the issuance of the Barbados Officers Endorsement Document.

5.3.5 International conventions
Barbados is a contracting party to all major IMO conventions.

5.3.6 Mortgages
A registered ship or share in a registered ship may be security for a loan or other valuable consideration, and on the production of the prescribed mortgage, the Principal Registrar shall record it in the register.
Mortgages shall be recorded in the order in time in which they are produced to the Principal Registrar. Loans and mortgages can be recorded during the provisional registration stage.
Belgium

1. Tax

1.1 Tax facilities for shipping companies

The following tax facilities are available to shipping companies:
- The tonnage tax regime
- Accelerated depreciation
- Deferred taxation of capital gains
- Investment deduction
- Notional interest deduction
- Value-added tax (VAT) exemptions
- Import deferral license and VAT warehouse
- Fiscal representation under a global VAT number
- Exemption from registration duties
- Custom duties and formalities
- Possible exemption from harbor fees

1.1.1 Tonnage tax regime

A Belgian shipping company is in principle subject to the standard corporate income tax regime at 33.99%, unless it opts for the tonnage tax regime.

The Belgian tonnage tax regime was introduced by law on 2 August 2002 as an alternative to the standard corporate income tax regime for Belgian resident shipping companies or Belgian permanent establishments of shipping companies resident outside Belgium. Companies can opt for the tonnage tax at any time, but once they have opted for the regime, it remains applicable for at least 10 years, unless the activity ceases before the 10-year period has lapsed. After 10 years, the tonnage tax regime is automatically renewed, unless the company gives notice to the authorities at least 3 months before the end of the 10th year.

Shipping companies that also perform non-shipping activities can create a separate shipping division and can opt for the tonnage tax regime for this division.

Qualifying operations include the exploitation of seagoing vessels for the transport of goods or persons in international traffic, as well as for the exploration of natural resources at sea. Furthermore, the profit obtained from the operation of a vessel with a certificate of registry for the performance of towing operations, the performance of assistance and other activities at sea, as well as all operations that are directly connected with the aforementioned operations, qualify.

Any one of the following conditions applies:

a) The Belgian company or permanent establishment must be the owner, co-owner or bareboat charterer of a seagoing vessel that is managed to a considerable extent in Belgium and not bareboat-chartered out to a third party.

b) The Belgian company or permanent establishment must be engaged in the crew and technical shipping management for third-party owners (i.e., carrying out the commercial management in Belgium for another taxpayer), provided that the ship managers are entrusted with both the management of the entire crew and the technical management of the seagoing vessel(s) and the company takes over the full responsibility from the owner of the vessel's operation and all the duties and responsibilities regarding safety and pollution.

c) The Belgian company or permanent establishment must have chartered seagoing vessels on a time-charter or voyage-charter basis.

In the case of b) and c), respectively, the annual total of the net daily tonnages of the seagoing vessels for which the commercial manager acts, or of the chartered vessels, may not contribute more than three
times the annual total of the net daily tonnages of the vessels that he or she manages as owner, co-owner or bareboat charterer. Jointly owned or bareboat-chartered seagoing vessels are included in the overall tonnage if the co-ownerships or co-chartering is at least 5%.

Furthermore, ship managers (i.e., the management of a seagoing vessel for the account of third parties and concerns the technical management and/or the supply of crew) benefit from the same profit calculation, but the regulation is reserved for taxpayers whose sole activity is the management of ocean-going vessels. A further requirement is that at least 75% of the number of vessels managed for third parties should fly the Belgian flag.

As already stipulated above and according to Article 115, §2, 2° of the law of 2 August 2002, seagoing vessels have to be managed to a considerable extent in Belgium. “Management” refers to the main responsibility for the activities, including:

- Concluding agreements concerning the ship
- Taking care of the ship's supplies
- Taking care of the ship's maintenance
- Entering into insurance contracts
- Keeping the accounts
- Fulfilling administrative formalities
- Appointing masters

The notion “considerable extent” indicates that the taxpayer carries out most activities or has them carried out under the taxpayer's authority.

To this end, the Royal Belgian Shipowners’ Association has developed a self-assessment matrix, which has also been adopted by the Belgian tax authorities. This self-assessment matrix can be used as a guideline or tool to verify compliance with the requirement of “ship management to a considerable extent in Belgium.”

This matrix is divided into three components. These management fields are (i) strategic and commercial management, (ii) technical management and (iii) crew management. Management not only includes control but also requires the execution of certain tasks. Management can be performed in Belgium by the owner, co-owner or bareboat charterer of the seagoing vessel(s) (the Belgian shipping company) or can be subcontracted to a Belgian company.

Furthermore, within the respective management fields, weighing factors are assigned to the various tasks to be executed. Each field of management represents a total score of a maximum of 12 points. An adjustment factor with regard to employment in Belgium is incorporated and added to the self-assessment matrix. The aforementioned adjustment factor is capped at a maximum of 10% of the total score of 36 points and amounts to 0.02 per Belgian employee.

The matrix therefore will enable the user to verify compliance with all criteria and fields of management in Belgium.

The lump-sum fixation of the profit is based on an amount per vessel, per day and per 100 net tons:

<table>
<thead>
<tr>
<th>Total net tonnage</th>
<th>Income per day per 100 tons (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 1,000</td>
<td>1.00</td>
</tr>
<tr>
<td>1,001–10,000</td>
<td>0.60</td>
</tr>
<tr>
<td>10,001–20,000</td>
<td>0.40</td>
</tr>
<tr>
<td>20,001–40,000</td>
<td>0.20</td>
</tr>
<tr>
<td>More than 40,000</td>
<td>0.05</td>
</tr>
</tbody>
</table>

The one-off profit will be subject to the Belgian corporate tax rate of 33.99%.
The tariff for vessels exceeding 40,000 tons, which is lower than in many other countries, can be applied only in the following cases:

- For newly built seagoing vessels
- For secondhand vessels less than five years old that were (permanently) registered in a non-EU member state
- For secondhand vessels older than five years that were registered in a non-EU member state during the five years before the assessment year in which the special tonnage tax regime will be applied

As tonnage tax is an alternative to normal income tax, depreciation, capital gains and capital losses are included. Consequently, companies planning an investment should evaluate whether they should opt immediately for tonnage tax or initially benefit from an investment deduction and accelerated depreciation (see below) and enter the tonnage tax regime only after a few years.

Neither losses carried forward nor losses in another division (that is, engaged in a business that does not qualify for the tonnage tax regime) can be set off against the lump-sum profit of the shipping division. Losses carried forward will be frozen until exiting the regime.

The tonnage tax regime is effective as of 1 January 2003.

1.1.2 Accelerated depreciation
For shipping companies that did not opt for the tonnage tax regime, seagoing vessels may be depreciated over their useful economic lives according to an accelerated depreciation plan, generally over a period of eight years:

- For newly built seagoing vessels (rates are provided by law):
  - 20% for the first financial year
  - 15% for the second and third financial years
  - 10% for subsequent years

- For secondhand seagoing vessels that are acquired for the first time by a Belgium-based taxpayer (rates are provided by law):
  - 20% for the first financial year
  - 15% for the second and third financial years
  - 10% for subsequent years

- For other secondhand vessels (rate is mentioned in the comments issued by the tax authorities on the Income Tax Code):
  - 10% per year

The declining-balance method is not allowed for vessels that are depreciated according to the rates provided by law. It is still applicable to the other vessels, but the Belgian legislature has imposed a restriction: the maximum depreciation is twice the depreciation of the straight-line method.

1.1.3 Deferred taxation of capital gains
For shipping companies that did not opt for the tonnage tax regime, a deferred taxation of capital gains realized on seagoing vessels applies if certain conditions are complied with. These conditions largely correspond to those mentioned in Article 47 of the Belgian Income Tax Code (among other conditions, ownership of the vessel for at least five years, compulsory reinvestment within five years and compulsory recording of the capital gain on a blocked reserve account).

1.1.4 Investment deduction
Shipping companies that did not opt for the tonnage tax regime can apply an investment deduction at the rate of 30% of the acquisition value of new vessels or secondhand vessels that are acquired for the first time by a Belgian company. The investment deduction is an extra tax deduction in addition to the annual depreciation of the vessel.
1.1.5 Notional interest deduction

The notional interest deduction is a general measure, available to all Belgian companies (except for those companies that have opted explicitly for the tonnage tax regime) and foreign companies with a Belgian permanent establishment liable to Belgian corporate income tax, granting a tax exemption or deduction of 1.630% of the company's (adjusted) risk capital for the assessment year 2016 and 1.131% for assessment year 2017. The above rates are increased by 0.5% for small and medium-sized companies.

1.1.6 VAT exemptions

In Belgium, there are several VAT exemptions from which shipping companies could benefit. The most important VAT exemptions are summarized below.

The Belgian VAT legislation foresees a VAT exemption for the supply of certain vessels. The vessels that qualify for the exemption are:

- Sea vessels used for passenger transport or transport of goods, for fishing or for the practice of any industrial or business activity
- Lifeboats and rescue ships for assistance on sea
- Warships
- Barges used for commercial inland shipping

A VAT exemption also applies to the delivery of goods and services to builders, owners and users of vessels of goods that are destined to be incorporated in or used for the exploitation of these vessels. Please note, however, that yachts and pleasure boats are excluded from the above VAT exemption.

Furthermore, a Belgian VAT exemption is also – under certain conditions – applicable to the following supplies:

- The modification, repair, maintenance, hiring and certain other services rendered in direct connection with seagoing vessels
- Goods destined for the provisioning of certain seagoing vessels (board provisions supplied to vessels for coastal fishing and barges for inland commercial navigation are excluded)
- Services used in the framework of exempt transport of goods, such as loading, unloading, transfer, packing, weighing, examination and receipt

In order to apply (most of) the aforementioned VAT exemptions, certain formalities have to be fulfilled (the recipient must provide the supplier with an order document including certain wordings). These exemptions allow the recovery of Belgian-input VAT. The VAT exemptions, of course, only apply to the extent the place of supply of the transaction is located – from a VAT point of view – in Belgium.

1.1.7 Import deferral license and VAT warehouse

Import VAT is, in principle, to be paid at the time of customs clearance. However, Belgium offers the opportunity to defer the payment of import VAT to the VAT return.

Whereas companies importing goods in the past had to make a cash deposit in order to benefit from the import VAT deferment scheme, the Belgian government has decided to abolish, as of 1 January 2013, the mandatory cash deposit.

Furthermore, please note that the Belgian government, with a view to reduce the burden relating to pre-financing of import VAT in the hands of non-established companies, has also made it possible for global fiscal representatives (see below) to apply for an import deferral license.

Such companies, regardless of how they are registered for VAT purposes in Belgium (direct registration, via an individual fiscal representative or via a fiscal representative with a global VAT identification number), can defer import VAT to their periodic VAT return, where they can set off VAT payable and recoverable. As a result, companies should no longer bear the cost of pre-financing import VAT when customs clears goods in Belgium.

Furthermore, when certain conditions are met, goods can be traded within a VAT warehouse. They can also be transferred from one VAT warehouse to another by the owner without having to charge Belgian VAT.
1.1.8 Fiscal representation under a global VAT number
In Belgium, companies performing imports and subsequent supplies do not require an individual Belgian VAT registration as such. Provided certain conditions are met, such transactions can be reported to the VAT authorities using a so-called global VAT number of a forwarding company or customs broker.

1.1.9 Exemption from registration duties
The law of 2 August 2002 provides for an exemption from registration duties on submitting deeds related to mortgages on vessels to a registration office. Only a €50 registration tax is levied. This exemption only applies to seagoing vessels and is effective as of 9 May 2003.

1.1.10 Customs duties and formalities
In the major ports, Belgian Customs offers 24/7 services, enabling smooth clearance of goods.

In Belgium, certain customs formalities for vessels and their equipment and for containers and pallets are to be observed:

- **Seagoing vessels registered in Belgium or Luxemburg:** No customs formalities are imposed on the arrival or departure in Belgian ports, except for on-board inspections by the Belgian Customs authorities. The same applies to the equipment of these vessels.

- **Vessels for inland navigation with home port in Belgium or Luxemburg:** No customs formalities are imposed on arrival or departure in Belgian ports, except for on-board inspections by Belgian Customs authorities. The same applies to the equipment of these vessels, to the extent such equipment is permanently affixed to the vessel or is, due to its nature, only useful on board of the vessel. For other items on board, customs formalities may apply.

- **Vessels registered in an EU member state:** Certain customs formalities apply on arrival or departure of in Belgian ports; more in particular, the EU status of the vessel must be demonstrated.

- **Vessels not registered in an EU country:** For vessels operated for commercial purposes by a person established outside the EU, a total relief from import duties (including commercial policy measures) is granted. With the advent of the Union Customs Code (UCC) on 1 May 2016, the vessel must be placed under the special procedure Temporary Admission (TA). Such placement can occur by means of an oral customs declaration and remains valid for the time required to carry out the transport operations. The TA import duty relief applies to the vessel itself and to its normal spare parts, accessories and equipment. During its stay in EU customs territory, a vessel can undergo repairs and maintenance (including overhaul and adjustments to comply with technical requirements) without affecting the TA import duty relief.

- **Containers:** A total relief from import duty (including commercial policy measures) applies to containers, their spare parts, accessories and equipment. The TA procedure applies (see above). For containers that resort under the Convention on the Customs Treatment of Pool Containers, the TA procedure can be discharged by the (re-)export of containers of the same type or value. Discharge must in principle take place within 12 months.

- **Pallets:** A total relief from import duty (including commercial policy measures) applies to pallets, their spare parts, accessories and equipment. The TA procedure applies (see above). The TA procedure may be discharged by the (re-)export of pallets of the same type or value.

Specifically for the shipping industry, a suspension of import customs duties applies to:

- Certain goods intended for incorporation in the ships, boats or other vessels, for the purposes of their construction, repair, maintenance or conversion

- Goods intended for fitting to or equipping such ships, boats or other vessels

This duty suspension generally affects seagoing vessels (and warships), as listed in particular sections of Headings 8901 up to 8906 of the EU Integrated Tariff Schedule (TARI). The use of this duty suspension is subject to prior authorization by Belgian Customs authorities, especially by means of the “End Use” special procedure. In the UCC, the authorization for End Use can be granted to persons established both inside or outside the EU and is subject to certain requirements e.g., record-keeping and the provision of a guarantee. It must be noted that with the advent of the UCC on 1 May 2016, the rules and regulations on End Use will be
more formalized and streamlined throughout the EU.
When Union goods are delivered as ship's supplies (which can be exempted from VAT and/or excises – see above), export customs formalities must be observed, regardless of the destination of the vessel.

1.1.11 Possible exemption from harbor fees
Exemption from harbor fees is possible, but it depends on negotiations with the port authorities and on job-creating potential.

1.2 Tax facilities for seafarers
There are no special tax facilities for seafarers (there are, however, certain incentives for their employers; see section 1.1).

1.2 Tax treaties
Belgium has concluded more than 90 treaties based on the Organisation for Economic Co-operation and Development (OECD) model treaty for the avoidance of double taxation. These treaties include the following jurisdictions:
Albania, Algeria, Argentina, Armenia, Australia, Austria, Azerbaijan, Bahrain, Bangladesh, Belarus, Bosnia-Herzegovina, Brazil, Bulgaria, Canada, China, Chili, Croatia, Cyprus, Czech Republic, Denmark, Ecuador, Egypt, Estonia, Finland, France, Gabon, Germany, Georgia, Ghana, Greece, Hungary, Hong Kong, Iceland, India, Indonesia, Ireland, Israel, Italy, Ivory Coast, Japan, Kazakhstan, Kyrgyzstan, Kosovo, Kuwait, Korea (South), Latvia, Lithuania, Luxembourg, Macedonia, Malaysia, Malta, Mauritius, Mexico, Moldova, Mongolia, Morocco, Netherlands, New Zealand, Nigeria, Norway, Pakistan, Philippines, Poland, Portugal, Republic of the Congo, Romania, Russian Federation, Rwanda, San Marino, Senegal, Serbia and Montenegro, Singapore, Slovakia, Slovenia, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Taiwan, Tajikistan, Thailand, Tunisia, Turkey, Turkmenistan, Ukraine, United Arab Emirates, United Kingdom, United States, Uzbekistan, Vietnam and Venezuela.

In principle, the place of effective management determines a country's right to tax profits of international shipping operations. The place where the business is actually managed or where the administration is carried out is the decisive factor. It is in principle the state where the enterprise operating the vessel resides. If the place of effective management is not the same state as the state of incorporation, profits are taxable in the state of effective management.
Therefore, if a foreign company has a legal branch in Belgium, the shipping profits gained in Belgium by this Belgian branch are taxable in the country where the company is a resident, provided that Belgium has concluded a double tax treaty with this country and the profit falls under Article 8 of this treaty. If the profits of the Belgian branch do not meet the previous conditions, these profits are taxable in Belgium.

1.4 Freight taxes
No freight taxes are levied in Belgium.

1.5 Special vessel registration tax benefits for the shipowner
The registration of vessels in Belgium does not trigger particular tax benefits for the shipowner.

1.6 European Union customs law
1.6.1 Union Customs Code (UCC) enters into force in 2016
In 2016, the European customs legislation will undergo a major change. On 1 May, the UCC enters into force, providing a new, streamlined, codified framework of customs legislation, up-to-date with recent developments. The UCC will replace the current Community Customs Code and its Implementing Provisions. Implementation of the UCC will start gradually as from 1 May 2016 and is expected to last until 31 December 2020. This also includes developing and deploying various new IT systems.
The advent of the UCC will bring along important changes for all companies involved in international supply chains, be they importers or exporters, logistical service providers, customs brokers, and shippers and forwarders.
One of the most remarkable features of the UCC is that it strongly encourages companies to comply with the requirements of Authorized Economic Operator (AEO). The UCC reserves the more sophisticated future customs facilitations exclusively for AEO-accredited companies (e.g., Self-Assessment, Centralised Clearance). AEO accreditation will therefore no longer be a “nice to have” but a “must have” for many companies. Other high-impact changes relate to the definition of “exporter,” the fact that end use and TA have become special procedures in their own right, the modernization of the regime of Temporary Storage (TS) (whereby movement of goods between TS locations is now allowed, even across EU borders and involving more than one TS operator), the electronic Proof of Union Status, etc.

Other important changes initiated by the UCC include the following:

### 1.6.1.1 Abolishment of the First Sale For Export (FSFE) rule

The “old” rules allowed that, under certain conditions, the customs value of imported goods can be based on a sale that took place earlier in the supply chain, for instance, a sale between a (related) non-EU based manufacturer and a (related) non-EU-based distributor or middleman. As a result, the FSFE rule leads to a lower duty bill for the importer.

In the UCC, the FSFE rule is abolished, and importers must use the value of the sale “occurring immediately before the goods are brought into the customs territory of the Union.” This rule, known as the Last Sale for Export rule, will eliminate the possibility of using an earlier sale in a chain of sales as the basis of the customs value at import into the EU that will result in an increased bill for importers currently making use of the FSFE rule.

### 1.6.1.2 Royalties and license fees

Another important topic for EU importers is whether royalties and license charges are subject to customs duties. In the UCC, the rules are formulated much more strictly, so royalties and license fees become more easily taxable for customs purposes. This is due to the fact that royalties and license fees are considered to be paid as a condition of sale for the imported goods when inter alia the goods cannot be sold to or purchased by the buyer without payment of the royalties or license fees to a licensor.

### 1.6.1.3 New definition of exporter

The correct identification of the exporter is important, as this concept defines who bears the fiscal (co-)liability for export transactions. It also has implications for fulfilling customs formalities as well as the entitlement to apply the VAT exemption for export outside the EU.

The UCC redefines the concept of “exporter” with a strong emphasis on “being established in the customs territory of the Union ... holding the contract with the consignee in the third country ... and ... having the power to determine that the goods be transported out of the Union.” However, at the time of writing (early February 2016), this new definition remains subject to interpretation. In a restrictive reading, the requirement of being “established in the customs territory of the Union” may make it problematic to correctly identify the exporter or even prohibit certain operators acting as exporter, e.g., for non-EU-established business to export from the EU. Further interpretative guidance from the EU Commission and/or other governmental bodies is awaited.

### 1.6.1.4 Authorized Economic Operator (AEO)

The UCC strongly encourages companies to become AEO accredited, in order to maintain specific customs-related facilitations. Indeed, more and more customs-related facilitations are now awarded exclusively to AEO-accredited companies. On the other hand, there are still facilitations that do not require AEO accreditation as such but that “only” require that specific AEO criteria are met. Facilitations for which AEO accreditation is required include guarantee waivers and simplified procedures such as the authorization for Entry into the Declarant’s Records (EIR) with the waiver of the obligation to physically present the goods to the Customs Office or self-assessment (SA).

Furthermore, the UCC specifies that an AEO-certified company will enjoy more favorable treatment than
other economic operators in respect of customs controls according to the type of authorization granted, including fewer physical and document-based controls.

The UCC creates two types of AEO accreditation: one for customs simplification (AEO-C) and another one for safety and security (AEO-S). It is possible to hold both authorizations at the same time.

1.6.1.5 Entry in the Declarant’s Records (EIR)
Today, many importers are authorized to clear goods at their own location without physically presenting the goods to a Customs Office. This facilitation is generally known as Local Clearance (in Belgium, also known as Domiciliation Procedure). In the UCC, Local Clearance will be replaced by the Entry in the Declarant’s Records (EIR), which will further simplify and accelerate the clearance process. However, to the extent a company wishes to avoid physical presentation of the goods at the Customs Office, the use of EIR requires that the company be AEO-C accredited.

1.6.1.6 Centralized clearance (CC) and self-assessment (SA)
Next to EIR, the UCC also provides for even more advanced kinds of simplified procedures, such as SA (whereby the company is entitled to determine the amount of customs duty payable by itself and can perform certain customs controls by itself) and CC (whereby a company is authorized to lodge all of its customs declarations at one single Customs Office, regardless of the location and member state where the goods enter or leave the EU). Both of these simplifications are reserved for AEO-accredited companies only. However, these simplifications are not yet operational and are expected to be implemented within a few years (2020).

1.6.1.7 Comprehensive guarantee
The UCC permits a comprehensive guarantee to be put in place covering the financial liability vis-à-vis Customs Authorities of more than one customs procedure (customs warehousing, IPP, transit operations, end use, etc.). The amount of the comprehensive guarantee can be reduced or even partly eliminated in case the company meets certain AEO conditions or is AEO-C accredited.

1.6.1.8 Movement of goods under Temporary Storage (TS)
The UCC allows goods having TS status to be moved between various TS locations without too much formality. Such movements can even take place cross-border within the EU, and even when two different storage operators are involved. Holders of an AEO-C accreditation are again favored here, as the latter two facilitations are only available to them.

1.6.2. Free trade agreements – recent developments
The European Union continues to expand and deepen its network of trade agreements with other jurisdictions. Trade agreements generally deal with purely trade-related matters, i.e., the elimination of tariff barriers (import and export duties and similar charges having equivalent effect, tariff quota, etc.) for products originating in the partner country. Such agreements can be both unilateral (e.g., the Generalized System of Preferences) or bi- or multilateral and are often part of a larger cooperation agreement with the partner country. Below is a selection of updates on the various arrangements.

1.6.2.1 Generalized Scheme of Preferences (GSP)
The GSP aims to support developing countries by providing cheaper access for their products to the EU consumer market (preferential EU duty rates apply). In that context, countries or regions that are classified by the World Bank as “high income” or “upper-middle income” during the three last consecutive years can be excluded from the preferential GSP import tariffs. In the past (2015), this has happened to China, Malaysia, Thailand, Ecuador and the Maldives.

Since 1 January 2016, the following countries are no longer included in the GSP scheme due to their economic development level (World Bank rating) or because of the application of another preferential market access arrangement that provides the same or better tariff preferences as GSP: Turkmenistan, Peru, Colombia, Honduras, Nicaragua, Panama, Costa Rica, El Salvador, Guatemala, Botswana and Namibia.
Costa Rica, Guatemala, El Salvador, Panama and Peru also benefited from the GSP+ scheme but will lose that status. On the other hand, Kyrgyzstan has been granted GSP+ status since 27 January 2016.

Looking one year ahead, the following countries will lose their GSP status as of 1 January 2017: Fiji, Iraq, Marshall Islands, Georgia (will also loose GSP+ status), Cameroon and Tonga. As of 1 January 2019, Samoa will lose its Everything But Arms (EBA) status.

1.6.2.2 Multilateral convention on pan-Euro-Mediterranean rules of origin (PAN-EUR-MED)

The EU Commission aims to use identical rules of origin throughout its network of bi-/multilateral free trade agreements. For that purpose, existing trade agreements will, wherever this is possible, be streamlined by replacing the existing rules of origin by the so-called pan-European Mediterranean (PAN-EUR-MED) rules of origin (or by referring to them). For companies, the use of identical rules of origin will reduce the complexity of the origin-determination process and the management thereof. For the EU and its partner countries, this will allow them to better react to rapidly changing economic realities.

At this moment, the rollout of the PAN-EUR-MED rules of origin has already been completed for a number of partner countries, including: Albania, Andorra, Bosnia, Egypt, Faroe Islands, Iceland, Lebanon, Liechtenstein, Norway, Serbia, Switzerland, Tunisia and Turkey.

1.6.2.3 Pending free-trade negotiations

1. TTIP (US)

The EU-US Transatlantic Trade and Investment Partnership (TTIP) aims to open up trade and investment between the EU and the US, which together comprise 40% of global economic output. Negotiations between the EU and the US started in July 2013, and 11 negotiation rounds have taken place so far. The 3 main focus areas of the partnership are market access, regulatory aspects and new rules to make it easier and fairer to import, export and invest.

Market access covers, for example, cutting customs tariffs on imported goods, opening government procurement contracts to firms from either side to bid, opening up services markets to make it easier to invest, etc. Regulatory aspects especially cover technical standards and product norms. The third area focuses on the protection of people in terms of health, safety, environment, financial and data security and includes measures to establish free and fair competition, access to energy and raw materials, the protection of people’s rights at work and the environment, etc.

The last negotiation round took place between 14 and 23 October 2015 in Washington D.C. and Miami. During this round, the three main focus areas were discussed, except for investment protection and Investment Court System. In February 2016, an exchange of offers took place with regard to the area of public procurement. It was moreover agreed that several groups will meet again before the 12th negotiation round (the so called “inter-sessional talks”), which will take place 2016 in Brussels.

2. Japan

The EU and Japan launched negotiations for a free-trade agreement (FTA) in April 2013, covering the progressive and reciprocal liberalization of trade in goods, services and investment, as well as rules on trade-related issues. So far, fourteen negotiation rounds have taken place. The 14th round took place between 30 November and 4 December 2015 in Tokyo, addressing a number of EU concerns, including non-tariff barriers and the further opening of the Japanese public procurement market. Although both sides aimed at concluding an ambitious agreement by the end of 2015, the next negotiation round will take place early 2016 in Brussels, and a final agreement may be reached in 2016.

3. Association of Southeast Asian Nations (ASEAN)

The EU is pursuing to conclude a free-trade agreement with ASEAN trade bloc (Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Cambodia, Laos, Myanmar (Burma) and Vietnam). Currently, exploratory informal talks are conducted with several individual ASEAN member states, some of which have already resulted in the conclusion of an agreement. However, the EU’s ultimate objective is and remains to
conclude a regional agreement with the entire ASEAN trade bloc. As such:

- The negotiations with Singapore were completed on 17 October 2014. However, it remains unclear who is competent on the EU side to conclude and sign such agreement. The European Court of Justice (ECJ) has been asked to identify what parts of the agreement fall under the exclusive competences of either the Union or the EU member states or under their shared competences. At the time of writing (early February 2016), this remains pending.

- The negotiations with Vietnam were completed, and the formal conclusion of an EU-Vietnam FTA was announced. It is expected that the FTA will not enter into force before 2018 (see section below).

- The negotiations with Malaysia have reached their midpoint. However, these have been difficult. As the parties were not able to resolve the most difficult issues, for the moment the negotiations on hold.

- The negotiations with Thailand were already launched in February 2013, and four rounds have taken place so far. It seems, however, that the negotiations have reached an impasse, and no further rounds are planned in the near future. Due to the current political situation in Thailand, it is not probable that an agreement will be reached in the near future.

- The negotiations with the Philippines were launched on 22 December 2015. The Philippines are the fifth ASEAN country to start negotiations for a bilateral FTA with the EU.

4. India

Negotiations for a free-trade agreement between the EU and India started in June 2007. The main focus of the negotiations is on market access for goods, the overall ambition of the services package and government procurement and sustainable development. Approximately 16 negotiation rounds have taken place between 2007 and 2013. After 2013, no negotiations have been held. The EU-India agreement would be one of the most significant trade agreements, touching the lives of 1.7 billion people.

5. Mercosur

In 2000, the first round of negotiations of an EU-Mercosur Association Agreement was initiated, but were suspended in 2004 (the Mercosur full member states include Argentina, Brazil, Paraguay, Uruguay and Venezuela). Negotiations resumed in May 2010, and since then, 10 negotiating rounds were held, focusing on the trade rules rather than customs duty reductions. During the EU-Mercosur ministerial meeting on 11 June 2015, there was a new attempt to (re)initiate the talks and to proceed with an exchange of market access offers in the last quarter of 2015. During the meeting on 1 October 2015 in Paraguay, commitments were made on both sides, but without a final outcome.

6. Gulf Cooperation Council (GCC)

Free-trade agreement negotiations with the GCC member states (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE) have been ongoing for quite some time, but were suspended in 2008. Informal contacts are still being kept, and the EU Commission remains ready to finalize the negotiations. On the other hand, the GCC has concluded a free-trade agreement with EFTA countries (Switzerland, Liechtenstein, Norway and Iceland), which was entered into force in 2014.

7. Andean Community

A free-trade agreement with Peru and Colombia has been (provisionally) in place since 2013. The EU is exploring the possibilities to integrate Bolivia and Ecuador (the two other member states of the Andean Community) into the existing trade agreement.

16.2 4Free-trade agreement negotiations concluded, but not yet applied

1. Canada

A political agreement was reached between the EU and Canada on the key elements of a Comprehensive Economic and Trade Agreement (CETA). The agreement envisages to remove 99% of the tariffs between the two parties. Next to trade-related topics, the CETA also deals with public procurement, services, geographical indications and regulatory aspects.

The end of the negotiation rounds was reached on 26 September 2014. At the time of writing (early
February 2016, the texts of the agreement are still undergoing legal fine-tuning and will then be translated into the EU's official languages. Subsequently, the agreement will be submitted for approval to the European Council and the European Parliament (ratification process).

The CETA with Canada will be the first free-trade agreement between the EU and a G7 country.

2. Vietnam

The EU and Vietnam have successfully concluded free-trade agreement negotiations, which form part of the larger framework of the EU-Vietnam Partnership and Cooperation Agreement (PCA). On the trade-related side, the FTA stipulates that 99% of all customs duties between the partners will be eliminated gradually over a 7 years for the EU and over 10 years for Vietnam. Apart from removing customs duties, the FTA also deals with non-tariff barriers (use of international standards), the removal of Vietnam's export duties, the geographical indications of food and drink products, government procurement, liberalization of services, protection of intellectual property rights, etc. As a next step, the FTA text will undergo legal reviews and will be translated into the various languages before being submitted to the European Council and European Parliament for approval and ratification. Entry into force is expected not earlier than 2018.

3. Singapore

Negotiations with Singapore were completed on 17 October 2014. However, it remains unclear who is competent on the EU side to conclude and sign such agreement. The ECJ has been asked to identify what parts of the agreement fall under the exclusive competences of either the EU or the EU member states, or under their shared competences. At the time of writing (early February 2016), this remains pending.

1.6.2.5 New free-trade agreements that recently entered into force

1. Ukraine (provisional application of trade-related aspects)

The provisional application of the Deep and Comprehensive Free Trade Area (DCFTA) between the EU and Ukraine began 1 January 2016; the DCFTA is part of the broader Association Agreement that was concluded between the EU and Ukraine. With certain limited exceptions, the provisional application of the DCFTA covers all trade-related matters of the Association Agreement. This entails that, as from 1 January 2016, the EU and Ukraine commit themselves to progressively eliminate customs duties on goods that originate in their respective countries. Ukraine from its side will also gradually phase out export duties and measures having equivalent effect and will safeguard measures for export duties. Official entry into force of the DCFTA will occur as soon as the ratification process in all 28 EU member states has been completed.

2. Human capital

2.1 Formalities for hiring personnel

The law of 3 June 2007 (replacing the law of 5 June 1928) regarding labor contracts for seafarers stipulates that an employment contract must be in writing, has to be drawn up in three copies and must contain specific clauses. Subject to certain conditions, an employment contract can be signed by means of an electronic signature. The seafarers must be registered in a book kept by the Belgian maritime authorities.

2.1.1 Duration of the contract

According to the employment law for seafarers, the employment contract must include the duration of the contract or the voyage (s) for which it was signed. It has to be entered into for a certain period of time, but it can be renewed without limitation. If the vessel is still at sea when the contract expires, the agreement is still valid until the vessel reaches the next port where there is a possibility of disembarking. The law of 3 June 2007 stipulates different possibilities for terminating an employment contract.

2.1.2 Wages

The wage scales for seafarers registered in the Merchant Navy Pool and for non-Pool seafarers are fixed in collective bargaining agreements. Also, the stipulations in the law of 3 June 2007 concerning loss of wages,
payment of wages, power of attorney and advanced payment have to be taken into account.

2.2 National labor law
Belgian labor law applies if a vessel sails under the Belgian flag.

2.3 Regulations on employing personnel

2.3.1 Crew
All seafarers employed on a Belgian-flagged vessel have to be registered with the Belgian maritime authorities (Directoraat-generaal Maritiem Vervoer – FOD Mobiliteit en Vervoer). They need to apply for a Belgian seaman’s book and must have a valid medical certificate and a valid Standards of Training, Certification & Watchkeeping (STCW) certificate. A copy of the employment contract and a copy of the certificate of service must be sent to the maritime authorities. Moreover, EU-resident seafarers must be registered in the Belgian Merchant Navy Pool.

These regulations are based on the STCW Convention, which was implemented in Belgian legislation by the Royal Decree of 24 May 2006.

2.3.2 Nationality of the captain
In principle, the command of a vessel registered in Belgium must be entrusted to a Belgian captain. The authorized official may waive this rule at the vessel owner’s request if trade or shipping circumstances so require.

2.3.3 Minimum standards
There are regulations on minimum standards for working and living conditions onboard. Belgium has ratified the International Labour Organization (ILO) Maritime Labour Convention (MLC, 2006).

2.3.4 Social security
In accordance with EU Regulation 883/2004, the flag of the vessel in principle determines the applicable social security scheme.

On vessels flying the Belgian flag, a distinction is made between:
- Crew who are EU citizens and crew whose place of residence is a country with which Belgium has signed an agreement on social security. These are subject to the statutory order of 7 February 1945 relating to social security for seafarers in the Merchant Navy. They are insured in Belgium.
- Crew not mentioned above may be excluded from the scope of the aforementioned statutory order. In this case, with respect to social security, these crew members are either covered by their countries of origin or by a private insurance contract entered into by the shipowner to cover them.

Regulation 883/2004 (and its implementing regulation) has replaced Regulation (EC) Nº 1408/71 as of 1 May 2010. However, the rules set out by Regulation 1408/71 with regard to the so-called “flag of vessel” principle have remained unchanged.

During a transitory period (10 years), the provisions of Regulation 1408/71 will continue to apply to existing situations as long as the factual elements of that situation have not changed, unless the employee explicitly requests that the new regulation should be applied.

2.4 Competent authority to tax income of employees
As a general rule, most Belgian double tax agreements stipulate that the state where the place of effective management is located can tax the wages of the employees in case of international traffic. However, it is recommended to check the applicable double tax treaties and dual income tax protocols, since some treaties and protocols contain exceptions to this rule.

2.5 Collective bargaining agreements
There are several collective bargaining agreements (CBAs) for seafarers registered in the Belgian Merchant Navy Pool. For example:
2.5.1 Free days
In view of the fact that seafarers are on board for 24 hours, 7 days a week, a system of compensation holidays was created. This system and the legal holidays are defined in the CBAs mentioned above.

2.5.2 Essentials of the discharge law
The applicable CBAs define more in detail the termination of the employment contract, including the dismissal and the resignation procedures.

2.5.3 Working hours
Belgium has ratified the ILO MLC, 2006.

2.6 Treaties relating to social security contributions
The following treaties are in force:
- EU Regulations 1408/71 and 883/2004 – In these regulations, the seafarer is generally required to work on board a vessel that flies the flag of an EU member state. (Please note that EU Regulation 833/2004, the new version of EU Regulation 1408/71, has entered into force.)
- A number of bilateral treaties, for instance:
  - The treaty with Luxembourg of 25 March 1991
  - The treaty with the Tunisian Republic of 29 January 1975
  - The treaty with Israel of 5 July 1971
  - The treaty with the United States of 19 February 1982

2.7 Manning issues with flying the Belgian flag
Several measures have been taken to decrease the crew cost of Belgian-flagged vessels. The effective difference between gross and net wages is about 13%.

2.7.1 Social security
EU citizens registered in the Belgian Merchant Navy Pool benefit from the following reductions of social contributions:
- Total exemption from employer’s social security contributions
- Partial exemption from employee’s social security contributions
- Reduced contributions to the Accidents at Work Fund

2.7.2 Withholding tax deducted from salaries
For certain seafarers employed on board vessels that are registered in the EEA, shipowners are exempt from paying withholding tax on professional income levied on seafarer wages, provided certain conditions are met (in accordance with the law of 20 July 2005).

2.7.3 Tax measures for shipping companies
For more details, please refer to section 1.

3. Corporate structure

3.1 Most commonly used legal structures for shipping activities
Most companies operate as limited liability companies (Naamloze Vennootschap or NV). The liability of the shareholders of an NV is limited to their interest in its share capital.
Foreign companies can also opt to operate via a (legal) branch in Belgium, rather than establishing a
3.2 Taxation of profit distribution

3.2.1 Outbound dividends
Dividends distributed to foreign parent companies are subject to an increased withholding tax rate of 27% as of 1 January 2016. However, in general, tax treaties provide for a reduction/exemption of withholding tax. In some cases, and subject to certain conditions and formalities, a withholding tax reduction/exemption may be available due to the application of the EU Parent-Subsidiary directive or Belgian domestic legislation. Note that the application of the fairness tax can be triggered upon dividend distributions.

3.2.2 Inbound dividends
Under the participation exemption, up to 95% of dividends received by a Belgian company or branch are tax-exempt. The dividends received exemption applies only if the distributing company is subject to a standard corporate income tax regime in its country of residence (taxation condition) and if the recipient of the dividend holds a participating interest of at least 10% for a minimum of one year or with a purchase value of at least €2.5 million (participation condition).

4. Grants and incentives

4.1 Specific and/or general subsidies available to shipping companies

4.1.1 Flemish Strategic Transformation Support for investments and/or training
The Flemish government offers financial support for investments and/or training in the framework of a strategic transformation project in the Flanders region.

This transformation project has to make a significant contribution to the strengthening of the economic fabric in Flanders, which may involve:

- Investments in strategic clusters and lead plants in Flanders
- International growth and development of innovation-oriented subject-matter experts (SMEs) in Flanders
- Transformational investments that realize the sustainable anchoring of important employment in Flanders

The grant is open to all companies located in the Flemish region and whose main activity corresponds to one of the accepted NACE codes. Large companies only qualify for investment support if they are located in one of the Flemish regional support zones and if they carry out investments in favor of new economic activities in the region (new establishment or diversification of activities).

Over a period of three years, the eligible investment cost must at least be equal to the following thresholds:

Investments:
- €1 million for small enterprises
- €2 million for medium enterprises
- €3 million for large enterprises

Training:
- €100,000 for small enterprises
- €200,000 for medium enterprises
- €300,000 for large enterprises

The basic support is 8% of the eligible cost for investments and 20% of the eligible cost for training. The support is limited to a maximum of €1 million per enterprise per year. A bonus support of 25% of the basic support can be obtained if an increase of employment can be proved.

The grant is continuously open, but a company can apply only once a year and needs to apply before the start of the investments and/or training.
4.1.2 Flemish grants for ecological investments

The Flemish government offers support to enterprises that carry out certain ecological (environmentally friendly and energy efficient) investments in Flanders.

All enterprises that are established in Flanders and whose main activity corresponds to one of the accepted NACE codes can apply for the following two grants: EcologiePremie Plus (EP+) and Strategic Ecology Support (STRES).

EP+ is only granted for investments in technologies that are on a limitative technology list (LTL). This list is limited to the technologies that can contribute the most to the achievement of the Kyoto targets, the European 20/20/20 goals and the Flemish environmental policy objectives.

The height of EP+ support depends upon the type of investment, the performance of the technology and the size of the enterprise. An SME can receive 10% to 25% support, and the support for a large enterprise ranges from 5% to 12.5%. An additional bonus between 3% and 10% can be awarded if the enterprise can prove it has performed an energy audit, has a valid environmental certificate or has an environmental management system.

Ecological investments in technologies that cannot be standardized because of their unique business-specific character -- and are therefore excluded from the LTL -- can apply for STRES. In order to be eligible for STRES, projects must align with the following strategic goals:

- The project offers a global environmental or energy solution at the enterprise level with closed energy and material cycles and process-integrated solutions.
- The project strives for generic environmental or energy objectives.
- The project is part of a global vision of the company with respect to the environment or the durable use of energy.

The height of this grant is based on the same parameters as EP+ (above). An SME can receive 30% to 40% support, and the support for a large enterprise ranges from 20% to 30%.

Note that EP+ and STRES are both calculated based on the additional investment cost of the essential investment components and can amount to a maximum of €1 million over three years. Note also that ecological investments that are eligible for aid through green certificates and cogeneration certificates are not eligible for these types of ecological support. The grants are continuously open, but a company has to apply before the investments start.

4.1.3 Public-private partnerships for the construction of loading and unloading facilities

Since 1998, companies in Flanders, irrespective of their nationality or activity, can build a loading and unloading facility along the navigable waterways by entering a public-private partnership (PPP) with the waterway managers. Thanks to this PPP, companies can rely on a government contribution to set up the infrastructure for such loading and unloading facilities.

The PPP scheme makes a distinction between the total cost of the project (which includes all investment cost required to make a transshipment facility operational) and the eligible project cost, as a share of the total project cost, that qualify for government contribution (mainly infrastructure costs). The government finances 80% of the eligible project cost. However, the share of the government cannot be greater than 50% of the total project cost.

The Flemish region can only invest in infrastructure, which as part of the public domain remains or becomes its freehold. After the construction, the waterway managers will grant a concession to the private partner or a permit for its use. The private partner has to pay a fee to use the infrastructure.

The following projects qualify for this funding scheme:

- Projects of general strategic and/or economic importance
- Projects involving the relocation of a quay wall whose present location is not compatible with the environmental or planning requirements
Projects involving the reconstruction or revalorization of an old quay wall or an almost nonexistent transshipment site
Projects along tidal waterways

The current PPP scheme is valid until 31 December 2016.

4.1.4 Connecting Europe Facility

Under the Connecting Europe Facility (CEF), €26.25 billion is available from the EU's 2014–20 budget to co-fund projects that support the completion of the Trans-European Transport (TEN-T) core network and its corridors by 2030. The TEN-T network comprises roads, railway lines, inland waterways, inland and maritime ports, airports and railroad terminals.

CEF projects have to focus on:

- Removing bottlenecks and bridging missing links, enhancing rail interoperability, and, in particular, improving cross-border sections
- Establishing sustainable and efficient transport systems in the long run, with a view to preparing for expected future transport flows, as well as enabling all modes of transport to be decarbonized through transition to innovative low-carbon and energy-efficient transport technologies, while optimizing safety
- Optimizing the integration and interconnection of transport modes and enhancing the interoperability of transport services, while enabling accessibility of transport infrastructures

Projects can include studies, pilot activities, works or a combination of studies, pilot activities and works. Applicants can receive 50% support for studies and between 10% and 50% for works and pilot activities.

The following parts of the program can be of interest for the shipping industry:

- Infrastructure projects on inland waterways, including the development of ports:
  - Upgrade of waterways in order to achieve stable or improved navigation conditions and/or more capacity for the passage of vessels
  - Upgrade/modernization of locks to allow easy passage of vessels and pushed convoys
  - Increase of under-bridge clearance
  - Creation and/or upgrade of infrastructure for mooring and waterside operations along a waterway for use and access to all on a non-discriminatory basis
  - Creation of facilities for ice breaking, hydrological services and dredging to ensure year-round navigability
  - Creation of reception facilities for oil and other waste
  - Deployment of alternative fuel infrastructure
- Development of multimodal platforms:
  - Development of and access to multimodal logistic platforms, which provide effective interconnection and integration of maritime or inland ports, airports or railroad terminals
- Motorways of the sea:
  - Development of sea-based transport services that are open, integrated, door-to-door logistic chains and concentrate flows of freight on viable, regular, frequent, high-quality and reliable short sea shipping links
  - Reduction of bottlenecks in maritime transport and multimodal routes
  - Development of connections to other transport modes
  - ICT applications
- River information services (RIS):
  - Purchase and installation of hardware equipment and software to be used for the deployment of RIS

The program is based on a call system. The deadline for the current call was 16 February 2016.

4.1.5 Horizon 2020

Horizon 2020 is the EU's research and innovation program, with nearly €80 billion of funding available for the period 2014–20. It brings together all existing EU research and innovation funding, including the Framework
Programme for Research, the innovation-related activities of the Competitiveness and Innovation Framework Programme, and the European Institute of Innovation and Technology.

Horizon 2020 aims to tackle societal challenges by helping to bridge the gap between research and the market. The program will cover activities from research to market with a new focus on innovation-related activities, such as piloting, demonstration, test beds, and support for public procurement and market uptake. Horizon 2020 focuses on a number of societal challenges, including transport. The program aims to boost the competitiveness of the European transport industries and to achieve a European transport system that is resource efficient, climate and environmentally friendly, and safe and seamless for the benefit of all citizens, the economy and society.

Projects have to be aimed at:
- Resource-efficient transport systems that respect the environment – improve efficiency in the use of natural resources and reduce dependence of fossil fuels
- Better mobility, less congestion, more safety and security – reconcile growing mobility needs with improved transport fluidity
- Global leadership for the European transport industry – reinforce the competitiveness and performance of European transport manufacturing industries
- Socio-economic and behavioral research and forward-looking activities for policymaking – improve policymaking, which is necessary to promote innovation

Under Horizon 2020, actions can be supported up to 100% of the eligible costs (maximum 70% for innovation projects). Projects usually need to involve at least three participants from three different European or associated countries. The program is based on a call system. For an up-to-date overview of the open calls, please visit http://ec.europa.eu/research/participants/portal/desktop/en/home.html.

4.1.6 Walloon region
The Walloon region offers several investment, training and environmental subsidies through regional and European structural funds. The eligibility criteria and geographic scope of the various schemes differ from one another. More information can be found on http://europe.wallonie.be and www.wallonie.be/nl/entreprises/gerer-une-entreprise/financement-et-mesures-d-aide/aides-financieres/index.html.

4.2 Investment incentives for shipping companies and the shipbuilding industry
Certain investment incentives are also available to shipping companies. A major incentive is the investment credit, i.e., a deduction from the taxable base amounting to 30% of the acquisition value of new seagoing vessels or secondhand seagoing vessels that are acquired for the first time by a Belgian company. This investment deduction is not applicable under the tonnage tax regime (see section 1).

4.3 Special incentives for environmental awareness
There are no special incentives.

4.4 Issues with flying the Belgian flag
Vessels flying the Belgian flag benefit from several tax incentives that are not available to other taxable vessels in Belgium (see section 1).

4.5 Various call-based support measures
In the past, several temporary measures have been launched. Examples include:
- Support fostering the use of small waterways
- Support for intermodal transport
- Support for new traffic using middle-sized ships on waterways that face infrastructural obstacles

Up-to-date information regarding these call-based support measures can be found on the following websites:
- www.wenz.be/nl/bedrijven/steunmaatregelen/
5. General information

5.1 Infrastructure

5.1.1 Major ports
The major seaports are Ostend and Zeebrugge.

Inland river ports are located in Antwerp (one of the largest ports in Europe for international shipping freight), Ghent, Brussels and Liege.

5.1.2 Port facilities
The following facilities are available:

- Maintenance and repair
- Cranes for every size of vessel (in Antwerp and Zeebrugge)
- Specialist terminals (Antwerp) for items including cars, cereals, clay, coal and ores, coffee, containers, fertilizers, forest products, fruits, hazardous cargo, iron and steel products, perishable goods, plastics, roll-on and roll-off cargo, sugar and tank storage
- Dense network of roads (Antwerp: 400 km; Ghent: 135 km; Zeebrugge: 180 km; Ostend: 55 km), railways (Antwerp: 1,113 km; Ghent: 250 km; Zeebrugge: 40 km; Ostend: 20 km) and canals (+/-1,500 km)
- More than 1,000 km of pipelines in the Antwerp urban area alone for natural gas, crude oil, oxygen, hydrogen, ethylene, propylene, nitrogen and all kinds of liquid hydrocarbon

The total area of the port complex is 21,229 ha (Antwerp: 13,057 ha; Ghent: 4,667 ha; Zeebrugge: 2,847 ha; Ostend: 658 ha).

5.1.3 Support services for the shipping industry
The following support services for the shipping industry are available:

- Consulting firms specialized in shipping
- Maritime law services
- Insurance brokers for the shipping industry

5.1.4 Maritime education
The Antwerp Maritime Academy offers Master’s and Bachelor’s programs in Nautical Science for the deck department and a Bachelor’s program in Marine Engineering.

Furthermore, certain maritime training institutes provide maritime training at a high-school level. The University of Antwerp (UA) offers various programs in transport and maritime law and management. The University of Ghent and UA offer a combined curriculum in Maritime Sciences, while the Antwerp/Flanders Port Training Center offers programs including, among others:

- Container terminal management
- Customs, taxes and trade affairs
- Dredging technologies
- IT and electronic data interchange in port business
- Port engineering
- Port environmental policy and technology
- Port management
- Port security

5.2 Safety, security and environmental issues

5.2.1 Implementation of the International Safety Management Code onboard vessels
Belgium has implemented the International Safety Management Code.

Almost every shipping company has International Organization for Standardization certifications.
5.2.2 Safety rules regarding manning
The safety rules regarding manning can be characterized as strict.

5.2.3 Special regulations on safety and the environment
The Belgian government has approved and ratified most International Maritime Organization (IMO) regulations.

5.2.4 Security measures
Belgium has implemented both the International Ship and Port Facility Security code established by the IMO and its EU translation, as established by Regulation (EC) No. 725/2004 and Directive 2005/65/EC, respectively, of the European Parliament and the European Council of 31 March 2004 and 26 October 2005, respectively, on enhancing ship and port facility security, by the law of 5 February 2007.

5.2.5 AEO security and safety certificate
See section 5.2.3

5.3 Registration

5.3.1 Registration requirements
The owner and the operator of a ship can, under certain conditions, apply to register a ship. The owner, as a natural person, must either be a national of an EU member state or reside in Belgium. The headquarters of a company must be in the EU.

Operators are subject to the following conditions for vessel registration:
- They must have an operation in Belgium, registered in the Trade Register.
- They must control the ship from that operation.
- They must be authorized by the shipowner to register the vessel.

5.3.2 Ship registration procedure
In general, a vessel can be registered in Belgium in the register of ownership or in the bareboat register. All vessels must be inspected by the Belgian Maritime Inspectorate. Vessels aged more than 15 years (from keel laying) will be subjected to stricter inspections. Only registered vessels are entitled to fly the Belgian flag (according to Article 2 of the law of 21 December 1990).

The vessels involved have to be inspected by the Belgian Maritime Inspectorate. In order to facilitate the inspection, a certain number of documents must be presented in advance, such as:
- The registration declaration form duly filled out
- The original tonnage certificate
- The document of title
- The original foreign certification (both in the absence of any registration and on de-registration with the lifting of the mortgage)
- The articles of association of the company or companies that own the vessel

Following the technical survey, the Belgian Maritime Inspectorate issues a Certificate of Classification. The vessel cannot be registered without this certificate. This document includes all of the certificates relating to IMO conventions (e.g., International Convention for the Safety of Life at Sea (SOLAS), International Convention for the Prevention of Pollution from Ships (MARPOL)).

5.3.3 Parallel registration
A vessel registered in the Belgian full register cannot be registered in another country except in the bareboat register of that country. In this case, the ship may fly the flag of the latter country.

5.3.4 International conventions
Other relevant conventions, inter alia, include:

- Paris Memorandum of Understanding on Port State Control (1982)
- International Convention on the Control of Harmful Anti-Fouling Systems on Ships (AFS 2001)
- International Convention on Civil Liability for Bunker Oil Pollution Damage (Bunker 2001)
- Convention on Facilitation of International Maritime Traffic (FAL 1965)
- Convention on Limitation of Liability for Maritime Claims (LLMC 1976)
- International Convention for the Prevention of Pollution From Ships (MARPOL 1973)
- International Convention for the Safety of Life at Sea (SOLAS 1974)
- International Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW 1978)
- International Convention on Tonnage Measurement of Ships (Tonnage 1969)
1. Tax

1.1 Tax facilities for shipping companies

Brazil does not have a tonnage tax system. Brazilian shipping companies (EBN) are subject to the same corporate income taxes as other Brazilian legal entities.

Brazilian resident legal entities are subject to corporate income tax (CIT) on their worldwide income at a rate of 15%, with a surtax of 10% for profits exceeding BRL240,000 per year. A social contribution tax (SCT) on net income is due at a rate of 9%. The maximum combined CIT rate is 34%.

Taxpayers may annually elect to pay CIT based on taxable profits determined as either (i) a percentage of gross revenues (Lucro Presumido) or (ii) per their actual income under accounting records (Lucro Real) on an annual or quarterly basis.

The taxation regime based on a percentage of gross revenues is limited to companies with annual gross revenues that do not exceed BRL78 million. Under the taxation regime based on actual income, the tax is calculated based on the company's accounting profits, which are adjusted for nondeductible expenses and nontaxable revenues. In general, operating expenses are deductible for CIT purposes, provided they are necessary and usual to the company's activity and duly supported by documents.

As a general rule, fixed assets may be depreciated based on their useful life. Documentation is required to support the useful life when it differs from the useful life provided by the Brazilian Internal Revenue Service (RFB). Certain limits apply for the deduction of royalties and trademarks from the taxable income.

Tax losses may be carried forward indefinitely. There is a 30% limit for offsetting the company's current year taxable income within the tax year. No carryback or inflation adjustments are permitted. Changes in ownership control or in the business activity on a cumulative basis may restrict the ability for offsetting the carried forward tax losses. Limitations also apply to the offsetting of nonoperating tax losses.

Capital gains recognized by Brazilian resident entities are included as ordinary income and taxed at the standard rates of CIT. Capital losses incurred in a calendar year may offset operating profits or capital gains generated in the same year. Excess capital losses may be carried forward indefinitely, but offsetting is limited to 30% of future capital gains.

When recognized by nonresidents, capital gains arising from the disposal of assets located in Brazil are subject to taxation in Brazil at a rate of 15%, regardless of whether the buyer is resident or nonresident. The withholding tax (WHT) rate increases to 25% when the beneficiary is a resident of a low-tax jurisdiction (LTJ) (see section 5.4.1).

Brazil grants reciprocal income tax exemption to foreign shipping companies domiciled in countries where Brazilian shipping entities have the same benefit in relation to their international shipping traffic activities.

Charter of vessel fees paid by a Brazilian resident to a nonresident beneficiary are subject to WHT at a zero rate; when the beneficiary is resident in a low-tax jurisdiction, the WHT is 25% (see sections 5.4.1 and 5.4.7).

For other applicable taxes and specific tax facilities for EBN, please see section 1.4 below.

1.1.1 Foreign profits taxation

In 1996, Brazil changed from a territorial to worldwide system by launching a rigorous Foreign Profits Taxation (CFC) regime. Under the CFC regime, any type of corporate investment abroad, be it direct or through a branch or subsidiary, is subject to corporation tax on a current basis (at 31 December of each year), regardless of a foreign local tax burden, local substance of the foreign group company, and the active or passive nature of the operations carried out abroad. A foreign tax credit generally is available in Brazil. Deferral of this tax is not possible. Relevant changes were introduced in the CFC rules with law 12.973/14.
There are two timing options to adopt such legislation: from 2014 onwards or from 2015 onwards. The effects are applicable to the company as of the year chosen to apply such rules. Although the new rules do not change the basic principles of the taxation in Brazil of foreign corporate profits, it makes the following primary changes:

- Modified the technique to tax profits of overseas group companies
- Introduces separate taxation as a general rule but with a temporary option to consolidate the results of certain foreign subsidiaries and branches for Brazilian tax purposes
- Introduces a temporary provision to allow the payment of tax on foreign profits in installments
- Allows tax deferral for profits earned through affiliates (generally, minority interests)
- Provides a carve-out from the CFC regime to foreign subsidiaries and affiliates that earn profits directly related to oil and gas operations in Brazil and exempts the Brazilian parent or investor of such a foreign subsidiary or affiliate from tax in Brazil on those profits

1.1.2 Foreign losses

The losses of a direct or indirect foreign subsidiary, which have been accrued in calendar years preceding the period in which Law 12,973/14 comes into force may be used to offset future profits of the same entity, considering the proportion of interest in each subsidiary. In order to offset the losses the taxpayer should report the amounts in the Demonstrative of Foreign Losses by July 31, 2015 within Brazilian tax authorities’ electronic system (so-called “Sped”), considering the following conditions determined in Normative Instruction SRF 1,520/14, Article 10:

- The accumulated foreign losses subject to offset with future profits should be proportional to the Brazilian parent participation in each of the foreign subsidiaries.
- The offset should be made before its conversion into reais (BRL).
- The amount to be offset is not limited to 30% of the entity net income.

Losses after 2015 should be reported also electronically, by July 31 of the subsequent years, on a stand-alone basis.

The legislation provides the taxpayers will lose the right to offset its accumulated losses if taxpayer does not duly report the values in the electronic demonstrative for foreign accumulated losses.

Regarding the entities that may opt to consolidate, the positive result of the consolidation should be included in the Brazilian parent entity’s taxable basis, reporting the losses used in the consolidation in the demonstrative for consolidation. The new rules have not changed the principle that future profits can only be offset with losses of the same entity. Group loss – profit offset is therefore not allowed. When the law does not permit the consolidation or the taxpayer has opted not to consolidate, losses are only used to offset future profits of the same entity.

1.2 Tax facilities for seafarers

There are no special tax facilities for seafarers. Individual resident Brazilian taxpayers are taxed on their worldwide income based on a progressive tax table with rates varying from 0% to 27.5%.

Nonresidents are taxed on their Brazilian-source income at a rate of 15% (25% if the residence is in a low-tax jurisdiction; see section 5.4.). Nonresident capital gains are taxable at a rate of 15%.

1.3 Tax treaties and place of effective management

Brazil has concluded tax treaties with the following countries: Argentina, Austria, Belgium, Canada, Chile, China, Czech Republic, Denmark, Ecuador, Finland, France, Hungary, India, Israel, Italy, Japan, Korea (South), Luxembourg, Mexico, Netherlands, Norway, Peru, Philippines, Portugal, Slovak Republic, South Africa, Spain, Sweden, Trinidad and Tobago, Turkey, Ukraine, and Venezuela.

Brazil is not a member of the Organisation for Economic Co-operation and Development (OECD). The tax treaties entered by Brazil are based on the OECD model treaty for the most part, although there is also influence from the United Nations model. Under these treaties, federal corporate income taxes paid to other
countries may generally be used to offset Brazilian income tax on the same income if the treaty country grants reciprocal treatment.

Apart from the Philippines treaty, profits from the operation of ships or aircraft in international traffic are taxable only in one of the contracting states. In most cases, the taxation will occur in the contracting state in which the place of effective management of the enterprise is situated.

However, some treaties (Chile, Finland, Japan, Korea (South), Peru, South Africa and Turkey) do not define the place of effective management as a factor to determine the place of taxation. In this case, profits of an enterprise of a contracting state from the operation of ships or aircraft in international traffic shall be taxable only in that state.

1.4 Freight taxes

All ships are required to pay the extra freight tax for the Merchant Marine Renewal (AFRMM) when unloading cargo in a Brazilian port. The AFRMM is charged on freight increased by handling charges at a rate of 25% for maritime navigation, 10% for coasting navigation and 40% for inland navigation on liquid bulk cargos carried out in the north and northeast regions. The taxpayer is the consignee, as indicated in the bill of lading, though the cargo owner may have joint liability for the payment of the AFRMM.

AFRMM is suspended for assets imported under any special customs regimes granted by the Brazilian tax authorities, such as under the drawback or the temporary admission regime with suspension of taxes, up to the date of registration of the import declaration in the event of nationalization upon customs clearance of goods.

Provision of carriage services is a taxable event for the state indirect tax (ICMS) with respect to cargo carriers whenever performed between shipper and recipient resident of distinct municipalities or states.

For cargo transportation between states, ICMS rates vary from 7% to 12%, depending on the port of departure. For cargo transportation within one state, ICMS rates vary from 17% to 19%, depending on the state where such transportation occurs.

For carriage operations started abroad, the ICMS taxable event is the final step of the carriage operation preceding its arrival in a Brazilian port of entry. ICMS rates vary from 17% to 19%, depending on the state where the port of entry is located. Except for express tax benefits granted by the taxing authority, inter-municipal and interstate carriage service providers will be subject to ICMS, as this type of operation is classified as an ICMS-taxable event.

Intra-municipal (within the borderlines of the city) carriage operations are subject to service tax (ISS). The ISS rates for intra-municipal carriage operations range from 2% to 5%, depending on the municipality. Two federal contributions, Social Integration Tax for Participation Program (PIS) and the Tax on the Financing of Social Security (COFINS), are levied on revenues from carriage service (freight) performed within Brazil at rates of 1.65% and 7.60%, respectively (PIS/COFINS are federal taxes on gross revenues, in other words.) Export revenues for services are generally exempt from PIS and COFINS when they represent the inflow of foreign funds into Brazil.

1.4.1 Brazilian shipping companies

Some specific tax facilities and financing incentives apply to EBN for Brazilian-flagged vessels and foreign-flagged vessels registered in a Brazilian Special Registry (REB). The registration procedure must be performed before the Brazilian Maritime Court (Tribunal Marítimo).

The celebration of a bareboat charter agreement with an EBN entity is required for foreign-flagged vessels to perform coastal, inland and port or maritime support navigation in Brazilian waters and for its enrollment with REB. Additional requirements also apply, including temporary suspension of the flag and compliance with tonnage conditions.

Freight revenues arising from goods carried between Brazil and a foreign country by Brazilian-flagged vessels registered under the REB are exempt from PIS and COFINS. Ships registered under the REB are exempt from
federal contributions to the Fund for the Development of Maritime Professional Education.

1.5 Taxes and contributions on operating results of a foreign ship engaged in cruise travel in Brazil

A specific tax treatment applies to any foreign vessel that enters the Brazilian territory and subsequently ships along the national coast on cruise travel. This includes:

- Calls at national ports
- Commercial activities and service provision, including goods originating from abroad that are intended for supply of the ship and for sale to passengers

The foreign shipping company engaged in cruise travel in Brazil must appoint an attorney-in-fact in Brazil. In this capacity and bearing responsibility for tax issues, the attorney will be vested with powers, including the power to compute and pay federal taxes and contributions due for activities carried out onboard or related thereto while the company sails ships along the coast of Brazil. An inventory of all products available for sale must be delivered to the customs authorities at the port of entry. Monitoring the initial balance, inputs and outputs and the final balance is required, as a report with such data and relevant tax payments, including those relating to the taxation levied on the nationalization of imported products, has to be presented to the customs authority of the last port of call in the country for obtaining authorization for the ship to depart.

The operating income from such activities shall be subject to taxation by federal corporate income taxes and federal taxes on gross revenues (PIS and COFINS).

1.6 Special vessel registration tax benefits for the shipowner

Freight revenues relating to the transportation of goods between Brazil and any foreign country are exempt from PIS, COFINS and the Fund for the Development of Maritime Professional Education when the operation is conducted by vessels registered with the REB (see section 1.4).

1.7 SPED

In Brazil, tax compliance is a major issue for resident companies because it entails substantial costs and a significant number of hours to satisfy all requirements. For this reason, in 2007, the Brazilian government started to design an electronic system known as the Public System for Digital Accounting (SPED).

Companies are required to maintain and deliver to the Brazilian Federal Revenue accounting, fiscal and labor information through the SPED electronic environment. Specific dates have to be observed. SPED provides a deep level of transparency of information in view of the quality and quantity of data and exchange of information through the integration of federal, state and municipal authorities. Another purpose is the consolidation of all corporate compliance, including tax and labor litigation information, in order to simplify procedures for taxpayers. For tax authorities, SPED is expected to improve controls and audits, as all information is cross-checked at the federal, state and municipal levels, which should reduce attempts to commit fraud and evade taxes.

In view of the use of SPED, the corporate tax return has been replaced by the Fiscal Accounting Bookkeeping System (ECF), which is part of the SPED environment. ECF includes blocks of electronic information from which data flows to be consolidated within the ECF: (i) economic-financial information, (ii) digital accounting bookkeeping (ECD), (iii) digital fiscal bookkeeping for indirect taxes and taxes on gross revenues (EFD), (iv) SISCOSERV (see details in the next item) and the digital corporate tax books (e-LALUR and e-LACS).

1.8 SISCOSERV system

SISCOSERV stands for Integrated System of Foreign Trade in Services, Intangibles and Other Operations that Produce Variations in the Net Worth of companies. This is an online system created by the federal government to improve public policies related to services and intangibles, which provides information to other electronic systems used by public offices, including the Brazilian Federal Revenue.

Residents in Brazil (e.g., individual and legal entities in the form of a subsidiary or branch) selling and/or acquiring
services or intangibles or conducting business with nonresidents that produce variations in the net worth of individuals, legal entities or non-person entities are required to record export or import of services in SISCOSERV. Although SISCOSERV is not intended to control taxation, it could affect the monitoring of federal taxes. Overall, SISCOSERV requires companies to closely monitor their compliance tax policy.

SISCOSERV is part of a network of a major system that includes SISCOMEX (similar to SISCOSERV but applicable to exports and imports of tangibles) and SISBACEN (related to the domestic and cross-border flow of financial operations and is under the governance of the Brazilian Central Bank).

2. **Human capital**

2.1 **Formalities for hiring personnel**

New employees shall have their working papers (employment registration) completed in a timely fashion by the employer with the information required (including wage, job title and hours of work). The employer must also secure enrollment for the collection of taxes and contributions due to employees.

Brazilian immigration legislation establishes that a foreign individual may only enter the country and be engaged in gainful employment or professional activities under certain types of entrance visas, depending on the type of activity and physical presence in the country, as follows:

- Business: up to 90 days
- Technical — item V: 1 year
- Marine — item V: 2 years
- Work — item V: 2 years
- Permanent: up to 5 years

Items (2), (3) and (4) above are different subtypes of the generic Temporary Item V visa, but only item (4) is conditioned on the existence of a local employment contract. As it involves the performance of an activity in the Brazilian labor market, its issuance by the Brazilian Consulate depends on an authorization of the Ministry of Labor and Employment. The application for such visas must be supported by a Brazilian company, either as an employer or sponsor.

2.2 **National labor law**

Brazilian labor laws apply to crew members of all Brazilian-flagged vessels or crew members hired by an EBN in Brazil or to work in Brazil.

When contracted through a local employment contract with a Brazilian entity, individuals must be duly registered as employees and remunerated through the Brazilian company payroll. All amounts paid through local payroll are subject to Brazilian individual WHT (rates vary from 0% to 27.5%), as well as to social security tax withholding at source (rates of the contribution made by individuals to the National Institute of Social Security vary from 8% to 11%).

Local employment contracts will also trigger corporate payroll costs and provisions, including an annual bonus corresponding to one-month's salary (also referred to as the 13th monthly salary or Christmas bonus) and a one-third vacation bonus (in addition to the salary for the vacation period of 30 days per year, after each 12-month period). Additionally, there are other labor rights granted by the legislation, such as transportation and meal tickets/vouchers, compensation of overtime hours with a 50% premium (during weekdays and Saturdays) or a 100% premium (on Sundays and holidays), among others.

Brazilian entities are also obliged to pay monthly contributions and other miscellaneous social contributions as follows (though some exceptions apply):

- Employee Severance and Indemnity Fund – 8%
- INNS – 20%
- RAT/SAT (risk of work accident) – 1% to 3%
- Education Fund – 2.5%
- To other entities, known as third parties (or the S System: SESI, SENAC, SENAI and SEBRAE)

In December 2011, the federal government introduced *Plano Brasil Maior*. The program consists of the replacement of the social security contribution at a 20% rate over the total compensation paid to employees and individual taxpayers, by a contribution on the gross income of the employing company, which can vary between 1.0% and 4.5%. Considering the latest updates, this program is now optional and irrevocable for the whole calendar year according to the option manifested by the Company every January or on the first jurisdiction with gross revenue verified.

### 2.3 Regulations on employing personnel
Brazil requires Brazilian marine workers to bear specific certificates and habilitations to work on board vessels, as per the ability level established by the maritime authority to exercise the relevant functions. International marine cards held by foreign crewmembers working on foreign-flagged vessels operating in Brazilian waters, with no employment relationship, may be used to comply with the habilitation required in certain cases and for a limited time. Depending on the time a foreign-flagged vessel will be operating in Brazilian waters, a minimum number of Brazilian crewmembers are required.

Brazilian labor law has specific rules applicable to shipping workers, mostly related to workload and safety in the work environment. It also establishes that all independent port workers should be hired through port labor management agencies created by the port operators. Only private port terminals located outside organized ports are allowed to hire fixed-term employees for the execution of port-related services.

### 2.4 Collective labor agreements
Brazilian labor law allows the negotiation of agreements between shipping companies and workers’ unions. The negotiations result in collective agreements, which rule the relations between the companies and their employees. The main Brazilian shipping workers unions are SINDAPORT, SINTRAPORT, SINDAMAR and SINDMAR.

### 2.5 Treaties relating to social security contributions
EBN employees are liable to pay contributions under the Brazilian social security system. Dockworkers are also inserted within the social security system as independent workers. The Brazilian employer must also pay social security contributions on the Brazilian payroll.

Brazil has concluded several international bilateral and multilateral social security conventions with the following countries: Argentina (Mercosul and Iberoamerican conventions); Bolivia (Iberoamerican convention); Belgium, Canada, Cape Verde and Chile (Iberoamerican convention); El Salvador (Iberoamerican convention); Ecuador (Iberoamerican convention); France, Germany, Greece, Italy, Japan, Luxembourg, Paraguay (Mercosul and Iberoamerican conventions); Portugal (Iberoamerican convention); Spain (Iberoamerican convention); Switzerland (awaiting ratification by congress); and Uruguay (Mercosul and Iberoamerican conventions).

Brazil has also signed agreements with Quebec (Canada), Korea (South) and United States, but these are pending ratification from congress and are therefore not yet in force.

### 2.6 Manning issues with flying the Brazilian flag
In Brazilian-flagged vessels, the captain, the engine room head engineer and two-thirds of the crew must be Brazilian individuals. For vessels enrolled in REB, however, the requirement for Brazilian individuals is limited to the captain and the engine room head engineer.

### 2.7 Fiscal aspects
Determination of residence for tax purposes depends on which visa an individual uses to enter the country. Foreign nationals holding either Temporary Type V visas, based on a labor contract with a Brazilian company, or permanent visas are taxed as residents from the time they enter Brazil.

Other foreign nationals are taxed as nonresidents if they satisfy the following conditions:
• They hold other types of temporary visas
• They are not involved in a local labor relationship
• They do not remain in Brazil for more than 183 days during any 12-month period
A foreign national who remains in Brazil for longer than 183 days is subject to tax on worldwide income, at the progressive rates applicable to residents.

Resident taxpayers are subject to individual income taxation on a worldwide income basis at rates ranging from 0% to 27.5%. Income paid through the Brazilian payroll system, including assignment-related benefits (locally sourced), is subject to income tax and social security tax withholdings at source. It is the payer’s obligation to carry out the necessary withholdings.

Income paid through non-Brazilian sources (e.g., off-shore split payroll arrangements) is subject to monthly income tax computations (Carnê-Leão). It is the individual’s obligation to compute and collect the income tax due.

Additionally, resident taxpayers must abide by the following filing obligations:
• An annual Income Tax Return (Declaração de Ajuste Anual de Imposto de Renda), for individuals who meet the established criteria. The filing deadline is the last business day of April of the year following that to which the return applies. No extensions of time to file are allowed.
• A Declaration of Assets and Rights Held Abroad (Declaração de Capitais Brasileiros no exterior · BACEN), which is due whenever the total inventory of personal assets and rights held abroad amounts to US$100,000 or more as at 31 December of the relevant year.

2.8 Tax treaties

Double taxation treaties have the objective of avoiding/mitigating double taxation events by way of regulating the right to taxation of income for the participating countries.

Brazil has ratified tax treaties with Argentina, Austria, Belgium, Canada, Chile, China, Czech Republic, Denmark, Ecuador, Finland, France, Hungary, India, Israel, Italy, Japan, Korea (South), Luxembourg, Mexico, Netherlands, Norway, Philippines, Portugal, Peru, Slovakia, South Africa, Slovak Republic, Spain, Sweden, Turkey, Trinidad and Tobago, Ukraine, and Venezuela.

3. Corporate structure

3.1 Most commonly used legal structures for shipping activities

The most common forms of business entities in Brazil are the corporation (Asociedade Anônima − S.A.), which may be publicly held with stock traded on the stock exchange; the public corporation or closely held private corporation (privately owned by a small number of shareholders and without its stock traded on the stock exchange); and the limited liability company (Sociedade Limitada − LTDA). The liability of each shareholder of a corporation is limited to the amount subscribed by the individual or company. Quota holders in an LTDA are liable for the full amount of the company’s legal capital until it has been paid in full.

From a Brazilian corporate perspective, there is no minimum corporate capital amount required and imposed to Brazilian companies (LTDA or S.A.).

However, the National Waterway Transportation Agency (ANTAQ) issued Normative Resolution #5-ANTQ, on 23 February 2016, which determines that the Brazilian shipping companies shall satisfy a minimum amount of net equity (between BRL1.25 million to BRL8.00 million, depending on the business shipping activity to be carried out).

Companies domiciled in Brazil and branch offices, agencies and representative offices in Brazil of companies domiciled abroad are subject to corporate taxation as independent entities. Income derived by Brazilian companies from their foreign subsidiaries and foreign branches is subject to CIT and SCT, as described in section 1.1 above.
3.1.1 International Financial Reporting Standards and Law No. 11638/07
Law No. 11.638 was enacted at the end of 2007 to be valid as of January 2008. This law aligns Brazilian corporate accounting legislation with the Brazilian accounting standards issued by the Brazilian Securities Commission (CVM) in light of the terms of the International Financial Reporting Standards.

The importance of that law was to bring international accounting convergence and increase transparency of the financial statements of Brazilian companies, either incorporated as corporations or any other form, provided that they are large companies, as defined by the Brazilian legislation. Large companies are those that individually or under common control have total assets in excess of BRL240 million or gross revenues of more than BRL300 million. They must also maintain bookkeeping and prepare financial statements observing Brazilian corporation accounting law and be subject to audit by independent auditors registered with the CVM.

Upon the alignment of the Brazilian corporate accounting and accounting legislation, in May 2014, Law 12.973 was published upon the conversion of Provisory Measure 627 of November 2013. The new law (regulated by Federal Revenue Normative Instruction 1515 of 24 November 2014) brought deep modifications to the Brazilian tax legislation, notably with respect to the corporate accounting rules introduced by Law 11.638 at the very end of 2007.

The modifications introduced by Law 12.973/2014 sought to align the corporate tax legislation with the corporate accounting and accounting legislation. Such changes in the tax environment have made a major impact in the calculation of the tax basis of the corporate income taxes (IRPJ and CSLL) and taxes on gross revenues (PIS and COFINS) and must be analyzed carefully in light of this new context for Brazilian companies. Some of the relevant aspects derived from the adjustment of the tax legislation relate to changes in the treatment of:

- The goodwill assessment for tax purposes (end of the calculation based on the difference between the purchase price and the book value of the company, which led in certain cases under the previous tax legislation to substantial gains for companies upon corporate reorganizations, which allowed for the tax amortization of such goodwill)
- Gains and losses derived from evaluation at fair value of assets and liabilities, corporate reorganizations, asset contributions and other commercial transactions for which such evaluation must be controlled in separate subaccounts to guarantee the deferment of taxes until realization
- Equity pickup method and interest on net equity calculation (see concept under item 3.3.)
- Adjustment to present value of sales in installments, which may affect the basis for calculation of the taxes on gross revenues, PIS/COFINS (this matter is still under discussion)

3.2 Taxation of profit distribution
Dividends paid out of profits accrued from 1 January 1996 are not subject to WHT on distribution to resident or nonresident shareholders.

3.3 Interest on net equity
A Brazilian company may calculate interest on net equity (INE) on the net equity value (adjusted by the deduction of certain accounts) paid to both resident and nonresident shareholders. INE is a hybrid mechanism to reimburse capital to the extent that amounts paid are treated as deductible expenses for corporate tax purposes at an effective rate of 34% (similar to financial expenses), while shareholders are paid for their investment in capital.

Interest on net equity is calculated on the adjusted net equity by applying the official long-term interest rate (TJLP), but its deductibility is limited to 50% of current earnings or accumulated profits. Interest on equity paid either to domestic shareholders or to foreign shareholders is subject to WHT in Brazil, charged at a general 15% rate (or 25% if payment is made to a low-tax jurisdiction, according to the list provided by the RFB Normative Instruction No. 1037/2010).
4. Grants and incentives

4.1 Specific and/or general subsidies available for shipping companies
The state’s official financing is available to EBN for shipbuilding, conversion, modernization and overhaul of ships previously registered in the REB at interest rates similar to those available for building, converting, modernizing and exporting vessels.

There is also a merchant marine and shipbuilding financing program, which is a federal government program. With the participation of the Brazilian Development Bank, the program provides financing to Brazilian dockyards for the construction of ships and to EBN for ordering ships and equipment from Brazilian shipbuilders.

4.2 Investment incentives for shipping companies and the shipbuilding industry
There are currently two tax incentives applicable to infrastructure, as follows.

REPORTO (Tax Regime for Incentives to the Modernization and Extension of the Port Infrastructure) is a special regime aimed at fostering investments in the modernization and enlargement of port facilities by port operators, port concessionaries, public use port lessees, companies authorized to operate port facilities of private and public use, and dredging companies.

The regime grants the suspension of the import duty, IPI, PIS and COFINS upon the acquisition of certain machinery, equipment and spare parts, among other goods, destined to be incorporated in the fixed asset for use in port facilities operations. IPI suspension is converted into an exemption five years after the purchase of goods, while PIS/COFINS is converted into zero rates after the same period. Applicability depends on meeting certain requirements and will be effective until the end of 2020.

REIDI (Special Regime for Incentives to the Development of Infrastructure) aims at fostering investments in the infrastructure sector by private entities, specifically by companies interested in investing in the transport, port facilities, energy, sanitary and irrigation sectors.

To be granted by REIDI, the company shall apply before the appropriate ministry within the federal government.

REIDI benefits mainly constitute the suspension of PIS and COFINS charged on local acquisition, rental and importation of new machinery, tools and equipment to be used in or integrated into infrastructure investments destined to be incorporated in the fixed asset of the beneficiary. Upon the use or incorporation of such goods into the infrastructure investments, the suspension of the PIS and COFINS social contributions will be converted into zero rates.

REIDI benefits shall be valid for a period of five years, counted from the date of qualification for the benefit of the legal entity holder of the infrastructure project.

4.3 Special incentives for environmental awareness
There are no special incentives for environmental awareness (though environmental legislation in Brazil is quite strict, so noncompliance may lead to heavy penalties).

4.4 Issues with flying the Brazilian flag
Please see section 2.6.

4.5 Shipping subsidy legislation
No changes in the legislation concerning subsidies for shipping are anticipated in the near future.

5. General information

5.1 Infrastructure
Law 12.815/2013, further regulated by Decree 8.033/2013, represented an attempt to improve the
regulatory framework of the industry by attracting private investment, increasing competition, reducing costs and the average time for loading and unloading, establishing competitiveness, and modernizing ports and services (e.g., outside of the organized port through private port terminals). Under current rules, there is no distinction between owned cargo and third-party cargo, and private port terminals operate loads from third-party companies.

There are rules for ports concessions depending on the activity to be performed by the operator (as public or private port). Further requirements demanding public selection consultation and calling for authorization for installation of a private port terminal, among others, have been introduced. Concessions and leasing contracts will be limited to 25 years, subject to one extension.

Within the boundaries of an organized port, there are only leased terminals or terminals explored through concession of the entire port. It is not possible to have private port terminals within organized ports.

New management responsibility between authorities of the industry is also established.

Private port terminals located outside organized ports are authorized to hire fixed-term employees for the execution of port-related services, without the intermediation of port labor management agencies created by the port operators. Concerned about a potential reduction in the flow of work, which could eventually be channeled to private port terminals now authorized to operate loads from third parties, independent port workers have been quite reactive to these new rules.

5.1.1 Major ports

<table>
<thead>
<tr>
<th>Name of port</th>
<th>Location of port</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belém</td>
<td>Belém – Pará</td>
</tr>
<tr>
<td>Macapá</td>
<td>Ilha de Santana – Amapá</td>
</tr>
<tr>
<td>Manaus</td>
<td>Manaus – Amazonas</td>
</tr>
<tr>
<td>Porto Velho</td>
<td>Porto Velho – Rondônia</td>
</tr>
<tr>
<td>Santarém</td>
<td>Santarém – Pará</td>
</tr>
<tr>
<td>Vila do Conde</td>
<td>Barcarena – Pará</td>
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<td></td>
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<tr>
<td>Aratu</td>
<td>Salvador – Bahia</td>
</tr>
<tr>
<td>Areia Branca</td>
<td>Areia Branca – Rio Grande do Norte</td>
</tr>
<tr>
<td>Cabedelo</td>
<td>Cabedelo – Paraíba</td>
</tr>
<tr>
<td>Fortaleza</td>
<td>Fortaleza – Ceará</td>
</tr>
<tr>
<td>Ilhéus</td>
<td>Ilhéus – Bahia</td>
</tr>
<tr>
<td>Itaquí</td>
<td>São Luís – Maranhão</td>
</tr>
<tr>
<td>Maceió</td>
<td>Maceió – Alagoas</td>
</tr>
<tr>
<td>Natal</td>
<td>Natal – Rio Grande do Norte</td>
</tr>
<tr>
<td>Pecém</td>
<td>Fortaleza – Ceará</td>
</tr>
<tr>
<td>Recife</td>
<td>Recife – Pernambuco</td>
</tr>
<tr>
<td>Salvador</td>
<td>Salvador – Bahia</td>
</tr>
<tr>
<td>Sergipe</td>
<td>Barra dos Coqueiros – Sergipe</td>
</tr>
<tr>
<td>Suape</td>
<td>Ipojuca – Pernambuco</td>
</tr>
</tbody>
</table>
### 5.1.2 Port facilities

The following facilities are available at most of the ports:

- Maintenance and repair
- Docking
- Storage
- Cranes for every size of vessel

<table>
<thead>
<tr>
<th>Name of port</th>
<th>Location of port</th>
</tr>
</thead>
<tbody>
<tr>
<td>Midwest</td>
<td></td>
</tr>
<tr>
<td>Cáceres</td>
<td>Cáceres - Mato Grosso</td>
</tr>
<tr>
<td>Corumbá/Ladário</td>
<td>Corumbá - Mato Grosso do Sul</td>
</tr>
<tr>
<td>Southeast</td>
<td></td>
</tr>
<tr>
<td>Angra dos Reis</td>
<td>Angra dos Reis - Rio de Janeiro</td>
</tr>
<tr>
<td>Barra do Riacho</td>
<td>Barra do Riacho - Espírito Santo</td>
</tr>
<tr>
<td>Forno</td>
<td>Arraial do Cabo - Rio de Janeiro</td>
</tr>
<tr>
<td>Itaguaí</td>
<td>Itaguaí - Rio de Janeiro</td>
</tr>
<tr>
<td>Niterói</td>
<td>Niterói - Rio de Janeiro</td>
</tr>
<tr>
<td>Panorama</td>
<td>Panorama - São Paulo</td>
</tr>
<tr>
<td>Pirapora</td>
<td>Pirapora - Minas Gerais</td>
</tr>
<tr>
<td>Ponta Ulbu</td>
<td>Anchieta - Espírito Santo</td>
</tr>
<tr>
<td>Praia Mole</td>
<td>Vitória - Espírito Santo</td>
</tr>
<tr>
<td>Pres. Epitácio</td>
<td>Presidente Epitácio - São Paulo</td>
</tr>
<tr>
<td>Santos</td>
<td>Santos - São Paulo</td>
</tr>
<tr>
<td>São Sebastião</td>
<td>São Sebastião - São Paulo</td>
</tr>
<tr>
<td>Rio de Janeiro</td>
<td>Rio de Janeiro - Rio de Janeiro</td>
</tr>
<tr>
<td>Tubarão Terminal</td>
<td>Vitória - Espírito Santo</td>
</tr>
<tr>
<td>Vitória</td>
<td>Vitória - Espírito Santo</td>
</tr>
<tr>
<td>South</td>
<td></td>
</tr>
<tr>
<td>Charqueadas</td>
<td>Charqueadas - Rio Grande do Sul</td>
</tr>
<tr>
<td>Estrela</td>
<td>Estrela - Rio Grande do Sul</td>
</tr>
<tr>
<td>Imbituba</td>
<td>Imbituba - Santa Catarina</td>
</tr>
<tr>
<td>Itajaí</td>
<td>Itajaí - Santa Catarina</td>
</tr>
<tr>
<td>Paranaguá</td>
<td>Paranaguá - Paraná</td>
</tr>
<tr>
<td>Pelotas</td>
<td>Pelotas - Rio Grande do Sul</td>
</tr>
<tr>
<td>Porto Alegre</td>
<td>Porto Alegre - Rio Grande do Sul</td>
</tr>
<tr>
<td>Rio Grande</td>
<td>Rio Grande do Sul</td>
</tr>
<tr>
<td>São Francisco do Sul</td>
<td>São Francisco do Sul - Santa Catarina</td>
</tr>
</tbody>
</table>
5.1.3 Support services for the shipping industry
The following support services are available:

- Banks with a shipping desk
- Consulting firms specializing in shipping
- Maritime law services
- Insurance brokers for the shipping industry

5.1.4 Maritime education
Maritime education is provided by several training centers in Rio de Janeiro, such as:

- Instruction Center Almirante Graça Aranha
- Instruction Center Almirante Wandenkolk
- Merchant Marine Officers’ Academy
- Rio de Janeiro Naval School

The Department of Ports and Coasts, through the Professional Maritime School, trains maritime, port and fishing workers according to international standards established for the performance of such activities. There are also two large specialization and training centers for maritime workers – one in Rio de Janeiro and the other in Belém – in addition to a wide network of the Department of Ports and Coasts, offering courses to more operational categories of workers.

5.2 Safety and environmental issues

5.2.1 Implementation of the International Safety Management Code on board vessels
The International Safety Management (ISM) Code for vessels was established by the International Maritime Organization (IMO) Safety of Life at Sea (SOLAS) convention.

5.2.2 Safety rules regarding manning
The safety rules regarding manning are considered by some in the industry to be fairly strict. Rule No. 30, issued by the Labor Ministry, and further amendments set forth obligations with which shipping companies should comply.

5.2.3 Special regulations on safety and the environment
There are numerous environmental and conservation regulations that may be relevant to shipping companies, including, but not limited to:

- Convention No. 147, by the International Labour Organization (ILO), on Merchant Shipping Minimum Standards
- International Convention for the Prevention of Pollution from Ships, executed in London on 2 November 1973
- International Protocol on Preparedness, Response and Co-operation in Case of Oil Pollution Incidents, executed in London on 30 November 1990
- ILO Convention No. 134, on Seafarers’ Prevention of Accidents, executed in Geneva in 1970

Besides the above legislation, Resolution No. 398/08, by the National Council for the Environment, currently in force, provides for minimum requirements for the individual emergency plan for oil pollution incidents from organized ports, port facilities or terminals, ducts, platforms and respective support facilities and provides guidelines on the plan preparation.

5.3 Registration

5.3.1 Registration requirements
EBN must be in compliance with Resolution Nos. 843/07 and 879/2007 of ANTAQ in order to obtain the proper authorization to operate as a shipping company in Brazil. Such authorization can only be granted to legal entities incorporated under Brazilian law, with their head office and management in the country, and which comply with technical, economic and legal requirements established by rules issued by ANTAQ and
other supplementary standards.

For the purpose of filing the application to receive authorization, the legal entity must evidence compliance with one of the following requirements:

- Own at least one Brazilian vessel, adjusted to intended navigation and prepared to operate
- Present a charter agreement of a Brazilian vessel, adjusted to intended navigation, entered into with the owner of the vessel for a period over one year
- Present the contract and financial chronogram of the construction of a vessel in a Brazilian shipyard

The following documents must be presented by the legal entity when requiring authorization:

- Registration of the vessel with the agency of the Water Carriage Traffic Security System of the Merchant Marine of Brazil
- Registration of the vessel under its name with the Registry of Maritime Ownership of the Maritime Court
- General liability insurance in force

Additionally, the company must present a good economic and financial situation characterized by:

- Shareholders’ equity amounting to BRL 8.0 million for long-course ocean navigation, BRL 6.0 million for cabotage and BRL 2.5 million for port support and maritime support navigation
- Liquidity ratio not lower than one and a formal request for authorization addressed to ANTAQ presenting respective documentation

### 5.3.2 Ship registration procedure

The authorization request to operate shall be formalized in an application addressed to ANTAQ's general director, supported by the following documentation:

- Updated articles of incorporation of the company that intends to operate as a shipping company in Brazil, duly registered and including the business purpose of the legal entity, intended activity of water carriage and support services
- Audited balance sheet and financial statements for the most recent fiscal year
- Certificate of registration with an agency of the Water Carriage Traffic Security System of the Merchant Marine of Brazil or certificate of ownership of vessels
- Certificate attesting to the absence of bankruptcy or agreement with creditors issued by the distributor of the legal entity's head office location
- Certificate of good standing from the federal, state or municipal finance offices of the legal entity's head office location and certificate of good standing with respect to social security and as regards deposits related to the Unemployment Compensation Fund
- Tonnage certificate
- Design specifications of the ship and descriptive memorial

ANTAQ is entitled to request other documents that it deems necessary.

### 5.3.3 Parallel registration

Foreign-freighted vessels with flag suspension can be registered under REB if some specific conditions are met.

### 5.3.4 Requirements for the officers and crew serving on vessels

Brazilian-flagged vessels must necessarily have Brazilians in the positions of captain and engine room head engineer and also have Brazilians comprising two-thirds of the crew, though vessels enrolled in REB are only required to have Brazilians in the positions of captain and engine room head engineer.

### 5.3.5 International conventions regarding registration

Laws 7.652/88, 9.774/98 and 9.432/97, currently in force, govern shipping registration and make no reference to international conventions. However, Article 27 of Law No. 10.233/01, adjusted by Law 12.815/2013 and some other related authorities, establishes that ANTAQ shall have the competence to
authorize Brazilian companies to perform deepwater and coastal maritime services and provide maritime and port support services. The legislation specifies that ANTAQ is responsible for the involvement of Brazil with international maritime entities as well as in conventions, agreements and treaties regarding water transport and for overseeing the compliance of Brazilian and foreign deepwater maritime companies with treaties, conventions, agreements and other international covenants to which Brazil is bound.

5.3.6 Special requirements/rules relating to registration
Shipping companies wishing to operate in Brazil are also required to comply with free competition principles. ANTAQ is responsible for preventing any practice that may be harmful to competition, as well as abuse of economic power. ANTAQ is furthermore obliged to perform authorized water carriage or support services, by complying with the operation-specific characteristics, relevant rules and regulations, so as always to meet the requirements related to regularity, continuity, efficiency, security, public interest and preservation of the environment. Additionally, the companies can only operate vessels that are supported by a comprehensive general liability insurance policy in force.

5.4 General comments
5.4.1 Countries considered tax havens under Brazilian law
Until November 2014, for Brazilian purposes, tax havens were those countries or jurisdictions that do not impose taxes on income or in which income is taxed at a rate lower than 20% or whose internal legislation imposes secrecy as regards the shareholding structure of legal entities or their ownership.

On 28 November 2014, the government published Ordinance 488 to reduce the maximum rate serving as a parameter in defining low-tax jurisdictions and privileged tax regimes to 17%.

The change affected imports and exports of goods, services or rights carried out by Brazilian resident companies subject to transfer pricing. This is because the change led to the reduction in the percentage of taxation and in the scope of operations controlled by these rules.

The change also affected:
- Thin capitalization rules under Law 12.249/2010: The reduction to 17% reduced situations under which a Brazilian company would be required to indicate a related party for purposes of determining the deductibility of expenses and interest according to the parameter of 30% of its net equity.
- Worldwide taxation under Law 12.973/2014: The rate reduction should increase the cases under which consolidation of results obtained abroad through CFCs is possible and deferment of corporate income taxes related to such results and came to narrow the concept of those entities that are compared to CFCs.
- Rules of source for cross-border transactions under Law 9.779/1999: The change should reduce the number of jurisdictions subject to a 25% WHT on income and capital gains paid to nonresidents.

The payment of services, interests, charter, royalties and rent by Brazilian companies to beneficiaries domiciled in the jurisdictions listed below is subject to WHT at the rate of 25%. However, it is expected that Brazilian Federal Revenue will update the list under Normative Instruction 1037/2010 in view of the change of the cap, as discussed above: Andorra, Anguilla, Antigua and Barbuda, Aruba, Ascension Island, Bahamas, Bahrain, Barbados, Belize, Bermuda, British and US Virgin Islands, Brunei, Campione d'Italia, Cayman Islands, Channel Islands, Cook Islands, Costa Rica, Cyprus, Dutch Antille, Djibouti, Dominica, French Polynesia, Gibraltar, Grenada, Hong Kong, Isle of Man, Labuan, Lebanon, Liberia, Liechtenstein, Kiribati, Macao, Madeira, Maldives, Marshall Islands, Mauritius, Monaco, Montserrat, Nauru, Niue, Norfolk Island, Oman, Panama, Pitcairn Islands, Qeshm Island, Saint Helena, Saint Kitts-Nevis, Saint Lucia, Saint Pierre and Miquelon, St. Vincent and the Grenadines, Occidental Samoa, American Samoa, San Marino, Seychelles, Singapore, Solomon Islands, Swaziland, Tonga, Tristan of Cunha, Turks and Caicos Islands, United Arab Emirates, and Vanuatu.

In addition to the 25% WHT, Brazilian transfer pricing rules are applicable whenever a transaction is carried out with a country considered a tax haven.

There is also specific treatment on thin capitalization (see section 5.4.3) and corporate income taxes.
5.4.2 Jurisdiction considered as a Privileged Tax Regime

Law 11.727/08 introduced Articles 24-A into Law 9.430/96 and brought the Privileged Tax Regime (PTR) concept to the Brazilian tax system. A PTR is defined as any tax regime where one or more of the following is present:

- Income is not taxed or the maximum income tax rate is less than 17%.
- Tax advantages are granted to nonresidents without an obligation of having substantive economic activity in the country.
- Tax advantages are granted to nonresidents conditioned on the absence of conduction of substantive economic activity in the country.
- Income generated abroad is not taxed or the maximum income tax rate is less than 17%.
- Information on the company’s owners, ownership of assets or rights or economic transactions performed is confidential.

In order to determine which jurisdictions should be considered PTRs, the Brazilian IRS enacted Normative Instruction # 1.037/2010, which introduced a list of entities in jurisdictions that are considered PTRs (Grey List).

- Uruguay: Legal entities organized as a Sociedades Financeiras de Inversão (SAFIS)
- Denmark: Holding company without substantial economic activity
- Netherlands: Holding company without substantial economic activity
- Iceland: entities organized as an international trading company (ITC)
- Switzerland: Companies classified as holding company, domiciliary company, auxiliary company, mixed company and administrative company subject to corporate income tax (IRPU), in a combined form, or not greater than 20%, according to the federal, cantonal and municipal legislation, as well as the regimes applicable to other legal forms of incorporation of entities, by means of rulings held by tax authorities, which result in the same tax burden detailed within this paragraph. In view of the reduction of the rate from 20% to 17%, we expect that this reference to Swiss companies will also be updated.
- US: Entities organized as a state limited liability company (LLC), owned by non-US residents, which are not subject to tax in the US
- Spain: Legal entities organized as an Entidad de Tenencia de Valores Extranjeros (ETVEs)
- Malta: Entities organized as an ITC or an international holding company
- Netherlands: Holding companies without substantial economic activity

Brazillian transfer pricing rules are applicable whenever a transaction is carried out with a country considered a low-tax jurisdiction or with an entity under a privileged tax regime. It is also important to note that more restrictive thin capitalization rules (see section 5.4.4) are applicable.

5.4.3 Thin capitalization rules

Thin capitalization rules were introduced into the Brazilian corporate income tax system to apply to inbound and outbound transactions performed either with related parties or with jurisdictions classified as low-tax jurisdiction or under a PTR (see update on the concept of these jurisdictions under item 5.4.2).

Under such rules, irrespective of whether the intercompany loans comply with the general rules governing the deduction of expenses and Brazilian transfer pricing rules, interest expenses arising from financing arrangements executed with a related party are only deductible if the related Brazilian borrower does not
have a debt-to-equity ratio greater than 2:1. Any excess interest is not deductible for corporate income tax purposes.

Additionally, interest expenses deriving from financing arrangements executed with a contracting party established in a low-tax jurisdiction or under a beneficial tax regime, whether related or not to the Brazilian borrower, are only deductible if the debt-to-equity ratio of the Brazilian borrower does not exceed 0.3:1.

5.4.4 Effective beneficiary
Any payment made, directly or indirectly, to an individual or company resident in a low-tax jurisdiction or under a beneficial tax regime is not deductible for income tax purposes unless the following requirements are met:

- Identification of the effective beneficiary of the income
- Evidence of the operating capacity of the recipient
- Supporting documentation regarding the price paid for rights, goods and services

Further, effective beneficiaries will be deemed to be those entities to which the income can be attributed not created with the sole purpose of avoiding taxes.

5.4.5 Brazilian transfer pricing rules
Multinational corporations often enter into intercompany transactions as part of their worldwide business strategy. In Brazil, the compliance requirements significantly differ from the OECD guidelines commonly practiced around the world.

Please see below for a brief explanation of Brazilian transfer pricing rules.

5.4.5.1 General comments
Brazilian Transfer Pricing legislation – Laws 9.430/96 and 12.715/12, regulated by NI RFB\textsuperscript{1} 1.312/12 and 1.322/13\textsuperscript{2} – requires that any\textsuperscript{3} exportation or importation of goods, services or rights to or from related parties\textsuperscript{4}, or even transactions with independent parties located at LTJs\textsuperscript{5} or under PTRs\textsuperscript{6}, are subject to minimum or maximum revenue or cost, as the case may be.

\textsuperscript{1} Normative instruction set forth Brazilian IRS (Receita Federal do Brasil).
\textsuperscript{2} NI RFB 1.312/12 was amended by NI 1.322/13.
\textsuperscript{3} As long as a consideration is paid or received.
\textsuperscript{4} For Brazilian tax legislation, the following are considered as related to a legal entity domiciled in Brazil (NI RFB 1,312/12 – article 2):
- Its head office, when domiciled abroad
- Its affiliate or branch, domiciled abroad
- An individual or legal entity, resident or domiciled abroad, whose holding in its capital characterizes it as its controlling or associated company
- A legal entity domiciled abroad which would be characterized as its controlled or associated company
- A legal entity domiciled abroad, when it and the company domiciled in Brazil are under common corporate or administrative control or when at least 10% of the capital of each of them is owned by the same individual or legal entity
- An individual or legal entity, resident or domiciled abroad, who, together with a legal entity domiciled in Brazil, has a holding in the capital of a third-degree entity, the sum of which characterizes them as parent or associated companies
- An individual or legal entity, resident or domiciled abroad, which is its associate in a consortium or condominium, when defined as such in the Brazilian legislation, in any venture
- An individual resident abroad who is a relative or kin up to the third degree, spouse or companion of any of its directors or of its controlling partner or shareholder in a direct or indirect investment
- An individual or legal entity, resident or domiciled abroad, who is its exclusive agent, distributor or dealer for the purchase and sale of goods, services or rights
- An individual or legal entity, resident or domiciled abroad, in relation to which the legal entity domiciled in Brazil is its exclusive agent, distributor or dealer for the purchase and sale of goods, services or rights

\textsuperscript{5} Article 1 of NI RFB 1.038/10.
\textsuperscript{6} Article 2 of NI RFB 1.038/10.
Brazil does not impose a “best method” rule. If a taxpayer produces proper documentation as supported by a local transfer pricing study (contemporaneously disclosed in annual tax returns), any method that can effectively be applied is valid, even one that yields the lowest possible taxable income in Brazil. If local documentation is not properly produced, the tax authority can apply any method prescribed under the law.

The general methods prescribed under Brazilian law to test and support controlled imports of goods and services are:

- Independent comparable prices (PIC)
- Resale-minus 20, 30 or 40% (PRL)
- Production-cost-plus 20% (CPL)
- Price valuation under import method (PCI)

For export controlled transactions, the methods prescribed under Brazilian law are:

- Sale price on export method (PVEx)
- Wholesale price less profit method (PVA)
- Retail price less profit method (PVV)
- Acquisition or production cost plus taxes and profit method (CAP)
- Price valuation under export method (Pecex)

As discussed above, whenever more than one method of calculation applies, taxpayers may choose the one that will result in the lowest transfer pricing adjustment (the Lowest Adjustment Rule). Once a method is elected, the method should be consistently applied to each specific transaction subject to transfer pricing rules occurring within the tax computation period. A taxpayer may adopt different methods for different transactions. Only the import and export of commodities have associated mandatory methods, which are the PCI and PECEX, respectively.

Please see below for a brief explanation of the application of the aforementioned methods.

## 5.4.5.2 Methods for imports analysis

### Comparable independent price method

The PIC method is defined as the arithmetical average of prices of identical or similar goods, services or rights in the Brazilian market or of other countries, in purchases and sales under similar payment conditions.

Under this method, the prices of goods, services or rights acquired abroad from a related company must be compared with the prices of identical or similar goods, services or rights:

- Sold by the same exporting company to unrelated legal entities, resident or nonresident
- Acquired by the same importer from unrelated legal entities, resident or nonresident
- In purchases and sales between other unrelated legal entities, resident or nonresident

The transactions of goods, services or rights selected as comparables should represent at least 5% of the total value of the imported controlled transactions and should occur in the same period to which the controlled

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8 Art 18 and 18-A of Law 9.430/96.
9 According to NI RFB # 1,312/12, are considered commodities the products listed on Annex I as well as the products traded on the recognized exchanges, listed on Annex II.
10 Article 8 of NI RFB # 1,312/12.
11 When the goods, services or rights traded are only similar to the goods services or rights of the controlled transaction(s) under analysis, the authorized adjustments are related with the items mentioned on Article 8, §1, of NI RFB #1,312/12.
12 The amounts for goods, services or rights must be adjusted in order to minimize the effects on prices to be compared, for differences in business conditions, physical nature and content.
transactions refers13.

Resale price less profit method

The PRL14 method is defined as the arithmetical average of resale prices of goods, services or rights, less:

- Unconditional discounts granted
- Taxes, contributions and other charges imposed on sales
- Commissions and brokerages fees paid
- Profit margin of 20, 30 or 40%, depending on the industry of the taxpayer15.

Production cost plus profit method

The CPL16 method is defined as the average production cost of goods, services or rights, identical or similar, in the country where they were originally produced, plus taxes and duties charged by that country on export and a 20% profit margin calculated on the determined cost.

Price valuation under import method

The PCI17 method is defined as the daily average values of the price of goods or rights subject to public prices on internationally recognized commodities and futures exchanges.

The prices of the goods imported shall be compared with the pricing of these same goods on internationally recognized commodities and futures exchanges18, adjusted up or down with respect to the average market premium, on the transaction date.

The application of the PCI method is mandatory when commodities are imported and pricing information is available in internationally recognized exchanges.

For purposes of applying the PCI method, when the commodities prices are not available on internationally recognized exchanges, the controlled transactions prices can be compared with the information provided by independent internationally recognized sources19.

545.3 Methods for imports analysis

Sale price on export method

The PVEx20 method is defined as the arithmetic average of the sales price of exports made by the same company to other customers, or by another domestic exporter of equivalent or similar goods, services or rights, during the same calendar year.

Wholesale price less profit method

The PVA21 method is defined as the arithmetic average of the sales price in transactions of similar or identical goods, services or rights made in the destination wholesale market, less a profit margin of 15%.

Retail price less profit method

13 If the comparable uncontrolled transactions do not account for 5% of the controlled transactions, the taxpayer can also consider the previous period comparable transactions, adjusted by the exchange rate differences between the periods.

14 Article 12 of NI RFB 1.312/12.

15 For information regarding the applicability of the different profit margins according to the industry of the taxpayer, please refer to §10 of Article 12 of the NI 1.312/12. Moreover, as per §12 of Article 12 of the NI 1.312/12, when the goods, services or rights imported are included in more than one of the industry listed in §10, the taxpayer should apply the percentage in accordance to the usage of the imported good, service or right.

16 Article 15 of NI RFB 1.312/12.

17 Article 16 of NI RFB 1.312/12.

18 A list of the recognized exchanges is available on Annex II of NI RFB 1.312/12.

19 A list of the internationally recognized sources can be found on Annex 3 of NI 1.312/12.

20 Article 30 of NI RFB 1.312/12.

21 Article 31 of NI RFB 1.312/12.
The PVV\(^{22}\) method is defined as the arithmetic average of the sales price in transactions of similar or identical goods, services or rights made in the destination retail market, less a profit margin of 30%.

Acquisition or production cost plus taxes and profit method

The CAP\(^{23}\) method is defined as the arithmetic average of the acquisition or production costs of goods, services or rights exported plus taxes and contributions charged in Brazil and a 15% profit margin applied to the sum of costs, taxes and contributions.

Price valuation under export method

The Pecex\(^{24}\) method is defined as the daily average values of the price of goods or rights subject to public prices on internationally recognized commodities and futures exchanges.

The prices of the goods exported shall be compared with the pricing of these same goods on internationally recognized commodities and futures exchanges, adjusted up or down with respect to the average market premium, on the transaction date.

The application of the Pecex method is mandatory when commodities are exported and pricing information is available on internationally recognized exchanges.

For purposes of applying the Pecex method, when the commodities prices are not available on the internationally recognized exchanges, the controlled transactions prices can be compared with the information provided by independent internationally recognized sources\(^{25}\) or the prices defined by the regulatory agencies published in the Official Gazette.

5.4.5.4 Specific considerations for interest transactions

For the agreements made effective in or after 1 January 2013, the calculation of the maximum amount of deductible expenses and minimal revenue arising from interest subject to transfer pricing regulations should observe the following:

- In case of transactions in US dollars (USD) at a fixed rate, the parameter rate is the market rate of the sovereign bonds issued by the government on the external market, indexed in USD.
- In case of transactions in Brazilian real (BRL) at a fixed rate, the parameter rate is the market rate of the sovereign bonds issued by the government on the external market, indexed in BRL.
- In all other cases, the parameter rate is the London Interbank Offered Rate (LIBOR).

The subsequent obtained parameter rate can still be increased by an annual spread to be established by the Ministry of Finance based on a market average (the previous 3% spread limitation was revoked).

For the agreements made effective before 1 January 2013, the calculation of the maximum amount of deductible expenses and minimal revenue arising from interest subject to transfer pricing regulations should be no higher/lower, respectively, than the LIBOR for US dollar deposits for a six-month term, plus an annual 3% spread, distributed in proportion to the applicable period.

5.4.5.5 Safe harbor and divergence margin

For export transactions (except for the exportation of commodities), safe harbor provisions, under which a taxpayer is not required to comply with the Brazilian transfer pricing methods, include:

The representativeness safe harbor rule determines that a taxpayer whose net revenue from exports does not exceed 5% of total net revenue in a calendar year is entitled to prove the adequacy of prices in its export transactions only by keeping the export-related documents, i.e., no specific method

\(^{22}\) Article 32 of NI RFB 1.312/12.

\(^{23}\) Article 33 of NI RFB 1.312/12.

\(^{24}\) Article 34 of NI RFB 1.312/12.

\(^{25}\) A list of the internationally recognized sources can be found on Annex 3 of NI 1,312/12.

\(^{26}\) For the payment of interest, the registry of the agreements in the Brazilian central bank would exempt the taxpayer from performing the relevant transfer pricing calculations, allowing the full deductibility of the interest that is in accordance with the conditions stated in the registered loan agreement.
calculation/study is required.

The profitability safe harbor rule determines that a taxpayer is also entitled to prove the adequacy of prices in its export transactions performed with related parties only by keeping the export-related documents when its income before corporate income taxes from export sales to related parties is at least 10% of sales revenue from these transactions. In other words, in case a chosen markup guarantees a net profit (before taxes on income) from exports of at least 10% of the total export revenues, the exportations transactions would fall under this safe harbor provision and would not be subject to comply with the TP methods above mentioned. This safe harbor only applies if the exportation controlled transactions does not represent more than 20% of the company’s total revenues.

The last of the safe harbor rules is the 90% test, by which if the export price is at least 90% of price in similar domestic transactions, no compliance with the above-mentioned methods is required.

Although there are no safe harbor provisions with respect to import transactions, there is a 5% divergence margin. If the calculated margins are up to 5% more or 5% less than the parameter price as calculated using one of the above methods, no adjustment to taxable income is required.

Finally, despite the non-applicability of the safe harbor provisions to the transactions that involve commodities, a divergence margin of 3% (as explained in the previous paragraph) is granted for the import and export of commodities.

5.4.6 International conventions

Brazil has signed shipping agreements with the following countries: Algeria, Argentina, Bulgaria, Chile, China, France, Germany, Poland, Portugal, Romania, Russia, United States and Uruguay.

2 For more information, go to www.antaq.gov.br/portal/IntInter_Acordos.asp.

5.4.7 Other comments

5.4.7.1 Rental

Rental payments made to a nonresident are generally subject to WHT at a rate of 15%. Rental payments made to residents of LTJs are subject to WHT at a rate of 25%. Payments for charter of vessels with no service components are subject to WHT at a rate of 0%, provided that the entry of the vessel into Brazilian waters is approved by the competent authority. This reduced rate does not apply if the beneficiary is domiciled in a low-tax jurisdiction, in which case taxation will be at the rate of 25%.

On 13 November 2014, Brazil enacted Law 13.043/2014 and limited the applicability of the 0% withholding tax rate on charter of vessels, specifically targeting the split contract structures used by companies operating in the Brazilian oil and gas industry.

The new restrictions apply on the simultaneous execution among related parties (as defined by the law – see below) of a vessel charter agreement and a services agreement, related to the exploration of oil and natural gas. In such cases, the value of the charter contract may not exceed the following percentages of the total contract value:

• 85%, when the charter relates to floating productions systems
• 80%, when the charter relates to drilling ships
• 65%, when the charter relates to other types of vessels

Tax authorities may increase or decrease these percentages by up to 10%.

Remittances abroad will be subject to withholding tax at a 15% rate on the portion of the charter contract exceeding those thresholds, or a 25% rate when the beneficiary is located in a low-tax jurisdiction or a privileged tax regime, as defined by Brazilian tax legislation. The new legislation provides a specific definition of related party for the application of the restrictions, which departs from that generally adopted for Brazilian tax purposes. The foreign owner of the vessel and the service provider will be considered related parties when they are partners directly or indirectly in the entity owning the chartered assets.
Canada

1. Tax

1.1 Tax facilities for shipping companies

Foreign shipping companies (including foreign subsidiaries of Canadian corporations) may be exempt from taxation in Canada (pursuant to a treaty or under Paragraph 81 (1) (c) of the Income Tax Act (the Act) for income earned in Canada from international shipping, if the country in which that person resides grants substantially similar relief for the same year to a person resident in Canada.

Canadian corporations engaged in shipping are subject to tax in Canada on their worldwide income.

Under a proposed amendment to the Act, “international shipping” is defined as the operation of ships owned or leased by a person or partnership that are used, either directly or as part of a pooling arrangement, primarily to transport passengers or goods in international traffic, except where (c) below applies, to any port or other place on the Great Lakes or St. Lawrence River in Canada. The definition includes activities incident to or pertaining to the operation of those ships, but does not include the following:

- Off-shore storing or processing of goods
- Fishing
- Laying cable
- Salvaging
- Towing
- Tug-boating
- Offshore oil and gas activities, including exploration and drilling activities
- Dredging
- Leasing a ship by a lessor to a lessee that has complete possession, control and command of the ship, unless the lessor or a person affiliated with the lessor has a defined “eligible interest” in the lessee.

1.2 Tax depreciation regime

Depreciation included in a resident’s financial statements is added back, and tax depreciation at prescribed rates is deducted for tax purposes, beginning when the asset is available for use.

A new vessel (including furniture, fittings, radio communication equipment and other equipment attached thereto), constructed and registered in Canada, which has never been used for any purpose before it is acquired, is included in a separate class with a prescribed annual depreciation rate of 33.33% of the capital cost (16.66% for the year of acquisition). For most vessels constructed outside Canada, an annual tax depreciation rate of 15% (7.5% for the year of acquisition) generally applies to the remaining non-depreciated capital cost. Where a nonresident person commences or ceases to use a vessel wholly within Canada’s domestic trade, a deemed acquisition or disposition of the vessel generally takes place at fair market value.

1.3 Tax facilities for seafarers

Seafarers who are residents of Canada are subject to tax in Canada on their worldwide income. The fair value of rations and quarters may be excluded from the seafarers’ income for the period when the vessel is at sea for a period of not less than 36 hours. Whether time on board a ship in port would be included in the term “at sea” depends on the circumstances.

Individuals who are residents of the province of Quebec; work as seafarers; are engaged in the international transportation of goods; hold an eligibility certificate issued by the Minister of Transport; and carry on duties on a ship operated by a resident of Canada (or a foreign subsidiary of such person) may deduct, for Quebec provincial income tax purposes, an amount equal to 75% of the remuneration received from this ship-owner for the period the seafarer works on such ship.
1.4 Tax treaties and place of effective management
Canada has concluded tax treaties with more than 80 countries. Most treaties have a special article dealing with international shipping. The basis for taxation under the treaties is generally based on the place of residence. Canada in general applies the common law test of “central management and control” to determine residence. However, Canadian domestic law contains an important exception for foreign-incorporated international shipping corporations (including foreign subsidiaries of Canadian persons) that meet certain conditions. Subsection 250(6) of the Act provides that a corporation that is formed under the laws of a country other than Canada and carries on an international shipping business that meets specified tests is deemed to be resident in its country of incorporation and not resident in Canada. The key requirements to be satisfied are:

- The corporation's principal business in the taxation year must consist of the operation of ships that are used by the corporation primarily in transporting passengers or goods in international traffic.
- All or substantially all of the corporation's gross revenue for the year must be derived from its international shipping business.

Accordingly, it is possible that a corporation formed outside Canada and carrying on qualified international shipping operations could employ all of its management and operational personnel in Canada without being considered to be a resident of Canada.

1.5 Freight taxes
No freight taxes are levied in Canada. Charges for pilotage, harbor dues, berthing, towage, wharfage and other port charges vary according to the location.

1.6 Specified vessel registration tax benefits for the ship-owner
A new vessel constructed and registered in Canada may be eligible for the benefits of accelerated tax depreciation rates in Canada as described in section 1.2 above.

1.7 Shipbuilding business in Quebec
The province of Quebec has a refundable tax credit for the construction or conversion of vessels for a taxation year of a corporation that carries on a shipbuilding business in Quebec, corresponding to an amount of up to 37.5% of qualified construction or conversion expenditures incurred during the year to construct or convert an eligible vessel. The tax credit cannot exceed an amount of up to 18.75% of the cost of constructing or converting the vessel. The rate of the tax credit, as well as the ceiling based on the cost of construction or conversion, varies depending on whether the vessel is a prototype or the first, second or third unit of the same series. To be eligible for the credit, a vessel must be built or converted in Quebec as part of a project for which the Ministry of Regional and Economic Development has issued a certificate.

1.8 Tariffs and duties
Canada imposes a tariff and import duty on foreign-made ships and foreign-made floating structures that are brought into Canada for domestic use, and on vessels brought into Canada for international use that are subsequently registered or required to be registered as Canadian vessels by Canadian authorities (for example, a Canadian Register of Vessels or a Coasting Trade License requirement). In this case, registration for goods and services tax (GST) and harmonized sales tax (HST) – Canada's value-added tax (VAT) legislation – will also be required.

Vessels and floating structures (including drilling platforms and rigs) typically attract a duty rate of up to 25% when imported into Canada. Duty rates are reduced where the vessel or floating structure is eligible for preferential treatment (e.g., when the vessel or floating structure originates in a country that has a free trade agreement with Canada).

Alternatively, vessel and floating structure imports may be eligible for duty remission under the following remission mechanisms.

Remission orders
Specific or individual remission orders on a particular vessel or category of ships may also be available to certain importers. Successful application for a specific remission typically involves third-party consultations, as well as a strong economic case.

Standing remission orders

Certain vessels – On 23 September 2010, a remission order was passed granting relief from custom duties on certain vessels, including ferry boats of a length of 129 meters or more, tankers and certain types of cargo vessels (e.g., freighters, container vessels, self-unloaders, car carriers or bulk unloaders) imported into Canada on or after 1 January 2010. The duty relief is intended to promote the replacement of aging vessels and to modernize Canada's shipping services. Canadian residents must strictly comply with the conditions of the order, which has no expiry date.

Temporary importation of vessels duties remission – When a vessel is imported into Canada to perform work for which no Canadian vessel is available, it may be possible to obtain duty relief on a temporary basis. For a standard, preapproved temporary vessel importation (for a maximum period of 12 months), the duties (including GST) can be calculated and remitted every month on a reduced tax base of 1/120 of the value of the vessel. In order for the vessel to be eligible for this relief, a written Coasting Trade License Application (Form C-47) must be made prior to the vessel arriving in Canada. It is important to note that where a vessel operates in Canada under a Coasting Trade License, that vessel's owner or operator is conducting business in Canada and is required to register for GST/HST purposes and to collect GST/HST on supplies of services made in Canada.

Exported vessels remission – Incomplete vessels, vessel equipment and vessel parts, typically imported by Canadian shipyards for export production, may be eligible for remission of all duties payable on qualifying inputs into exported vessels, on condition that such goods are brought into or attached to vessels that are declared by the Minister of Industry to be:

- Eligible ships under the Shipbuilding Temporary Assistance Program Regulations
- Eligible ships for export under the Shipbuilding Industry Assistance Regulations

Mobile offshore drilling units (MODUs) remission – If a drilling unit qualifies as a MODU (e.g., a drilling platform, a jack-up, a drill ship or a semisubmersible) and meets certain other conditions, full-duty relief can be obtained where an application is filled with the Canada Border Services Agency. The conditions include:

- The MODU is used only in drilling activity for exploration, delineation or development of the offshore project.
- The MODU is temporarily imported into Canada during the period commencing on or after 4 May 2004, for exploration, delineation or development activities and ending on or before 4 May 2014.
- The importer files such evidence as may be required to determine eligibility for the remission.
- The claim for remission is made prior to 4 May 2016 (e.g., duty relief may be obtained retroactively).

1.9 Tonnage tax regime

Canada does not have a tonnage tax regime.

2. Human capital

2.1 Formalities for hiring personnel and workplace safety

The Maritime Labour Standards, as set out in Part 3 of the Canada Shipping Act 2001 (CSA 2001), govern the hiring of personnel for commercial maritime activities on Canadian vessels operating worldwide, as well as on commercial vessels operating in Canadian waters. These standards describe, in detail, labor agreements required of crew hired on vessels with unlimited or international voyages and, to a certain extent, on vessels of 100 gross tonnage or more.
The Safe Working Practices Regulations of the CSA 2001 further describe practices that commercial ships must follow to maintain a safe environment.

Being a signatory to the International Maritime Organization's Standards of Training Certification & Watchkeeping (STCW) 1995 Convention, Transport Canada Marine Safety is required to implement a quality assurance system for the certification and training of Canadian seafarers. This entails meeting training standards, obtaining the requisite certificates of competence and passing the required examinations.

### 2.2 National labor law

The Canada Labour Code applies to crew members of all Canadian vessels. The CSA 2001 Safe Working Practices Regulations apply to anyone employed in any working area associated with any ship in Canada or on any Canadian ship outside of the country.

The Marine Occupational Safety and Health Regulations, which are part of the Canada Labour Code, apply to the following:

- Personnel employed on ships registered in Canada
- Personnel employed on un-commissioned ships of Her Majesty in the right of Canada
- Personnel employed in the loading or unloading of ships

In July 2010, Transport Canada announced the implementation of new regulations for the marine sector to further protect the health and safety of workers. These regulations replace the existing Marine Occupational Safety and Health Regulations, which came into force under Part II of the Canada Labour Code in 1987.

Harmonizing the new regulations with the Canada Occupational Health and Safety Regulations, the regulatory changes are aimed at standardizing the level of health and safety protection for workers who are both off board and on board.

### 2.3 Regulations for employing personnel

In addition to Part II of the Canada Labour Code (Labour Standards), which regulates employment in Canada in general and in its shipping industry as a whole, the Marine Personnel Regulations (MPR) of the CSA 2001 cover certifications, crew and labor standards.

Other applicable regulations and guidelines include:

- The Regulations Respecting Hours of Work of Employees Engaged in Shipping on the West Coast of Canada and East Coast of Canada and Great Lakes Shipping Employees Hours of Work Regulations deal with standard hours of work and overtime in the East Coast, Central and West Coast shipping industries.
- Minimum wage is established in each province and territory.
- Further information is available in the Canada Shipping Act and Regulations – Marine Personnel Regulations, SOR/2007-115.
- The General Pilotage Regulations, recently amended in April 2012, define marine medical examination standards for seafarers in Canada.

### 2.4 Collective labor agreements

The Canada Labour Code is the basis for the Canadian government's labor relations strategy. Given that the shipbuilding and marine industry has a strong manufacturing component, most of it is covered within the jurisdiction of provincial governments. The federal government has authority over industries of an extra-provincial or international character, such as the railways, bus operations, trucking, pipelines, ferries, tunnels, bridges and canals, and shipping and related services (e.g., long-shoring).

Canadian shipbuilding unions include:

- Unifor
- BC Ferry and Marine Workers’ Union
- Shipyard General Workers’ Federation of British Columbia
- Marine Workers and Boilermakers Industrial Union
2.5 Treaties relating to social security contributions
Barring few exceptions, every person in Canada over the age of 18 years and earning a salary must contribute to the Canada Pension Plan. The employee and the employer contribute half of the amount. Canadians working in Quebec contribute to the Quebec Pension Plan.

Canada’s publicly funded health care system comprises 10 provincial and 3 territorial health insurance plans. The Medicare system provides access to universal and comprehensive coverage for medically required hospital and physician services.

3. Corporate structure

3.1 Most commonly used legal structures for shipping activities
A corporation is the most commonly used legal structure for shipping activities. Canadian corporations are subject to the maximum combined federal and provincial or territorial tax rates, ranging from 25% to 27.75% of taxable (net) income for the 2015 calendar year.

A Canadian corporation that primarily operates ships typically allocates income to provinces where it has a permanent establishment using a port-call-tonnage and salaries allocation formula. Nonresident corporations conducting business in Canada through a branch are taxable at the full corporate rate on their net business income earned in Canada. Furthermore, they must pay an additional tax of 25% on after-tax income, subject to an allowance for investment in Canadian property. This branch tax may be reduced by a treaty.

3.2 Taxation of profit distribution
In general, dividends paid by one Canadian corporation to another are tax free. Dividends paid by a Canadian corporation to a foreign shareholder are typically subject to a 25% withholding tax rate, which may be reduced by a tax treaty.

4. Grants and incentives

4.1 Specific and/or general subsidies available for shipping companies
There are none that are specific to the shipping industry.

4.2 Investment incentives for shipping companies and the shipbuilding industry
The public sector has undertaken the following initiatives:

- Scientific Research and Economic Development tax credits are available through the Canadian Customs and Revenue Agency.
- The National Research Council of Canada is working to increase the country’s competitiveness in the growing ocean and marine technologies sector. The organization provides expertise, innovative solutions and technologies in ocean engineering. Research and services support a wide range of Canadian and international projects, ranging from high-performance naval vessel operations to offshore oil and gas exploration.
- In addition, Transport Canada provides an annual grant to the Province of British Columbia in accordance with an agreement signed in 1977. Grant value, initially CAD$8 million, it was CAD$28.9 million in 2014-15.
- The Government of Canada spent an estimated CAD$62 million on marine safety during FY13. It plans to spend CAD$49 million during FY16.

4.3 Special incentives for environmental awareness
According to the Canadian government, the use of marine transportation, which is an environmentally
friendly mode, could complement Canada's environmental objectives. In many circumstances, marine transportation is widely recognized for its environmental benefits of reduced emissions and fuel efficiency. Since 1999, Transport Canada has been providing funding support for the promotion of Intelligent Transportation Systems projects and research in Canada. Intelligent Transportation Systems are a broad range of information and communication technologies used to make transportation systems safer, more efficient and environmentally friendly within the existing infrastructure. In the *Intelligent Transportation Systems Plan for Canada: En Route to Intelligent Mobility* (1999), the Canadian government set out a strategy for the development and deployment of intelligent transportation systems across urban and rural Canada. Federal funding is provided under the Strategic Highway Infrastructure Program (SHIP).

In January 2012, the Canadian government launched the Shore Power Technology for Ports (SPTP) Program. The CAD$27.2 million contribution program aims to install shore power to reduce air emissions from ships. This program followed Transport Canada's successful Marine Shore Power Program, which was introduced in 2007. In October 2013, shore power project at port of Halifax was completed. Shore power technology is also available at Swartz Bay ferry terminal in British Columbia, Port Metro Vancouver and Port of Prince Rupert.

### 4.4 Issues with flying the Canadian flag

Section 64 (1) of the Canada Shipping Act 2001, Part 2 states, “A Canadian vessel has the right to fly the Canadian flag”.

**Obligation to fly the Canadian flag**

The master of a Canadian vessel, except for one registered in the small vessel register, needs to make sure that a vessel flies the Canadian flag in the following circumstances:

- When signaled to do so by a vessel under the command of the Canadian government or Canadian Forces
- When entering, leaving or anchoring in a port

**Exception**

The Chief Registrar may, on application, suspend the registration of a Canadian vessel in respect of the right to fly the Canadian flag if the vessel is shown on the registry of a foreign state as a bareboat-chartered one.

### 4.5 Major changes in shipping subsidy legislation in the near future

No changes in shipping subsidy legislation are expected in the near future.

### 5. General information

The CSA 2001 is an updated version of the Canada Shipping Act, which dates back more than 100 years. CSA 2001 and its associated revisions came into effect in July 2007. It is the principal legislation that governs the activities of Canadian vessels in all waters, and of all vessels in Canadian waters. The Act has been simplified by:

- Including definitions only when the ordinary dictionary meaning has been narrowed down or expanded
- Removing technical details from the Act to simplify the legislative framework and placing them in regulations, standards or other documents
- Using language that is clearer and much easier to understand
- Moving all liability provisions to the Marine Liability Act

References to the Canada Shipping Act in this document are sourced from the 2001 version.

#### 5.1 Infrastructure

**5.1.1 Major ports**

As of December 2014, there were 567 port facilities, 902 fishing harbours and 202 recreational harbours in
Canada.

Under the National Marine Policy, ports are classified into the following three categories:

- Canada Port Authorities (CPAs) federal agency ports (18, after inclusion of the Port of Oshawa in February 2012, which was under the Harbour Commission until 2011)
- 29 regional/local ports
- 21 remote ports (which remain under the control of Transport Canada)

As on 1 January 2015, Canada came in 25th worldwide in terms of ownership of fleet and 32nd in terms of dead weight tonnage (dwt). It had a fleet size of 348 ships with 7.7 million dwt. The domestic marine sector can be classified under four geographic regions – the Pacific Coast region; the Great Lakes/St. Lawrence; the Atlantic region, and the Northern region. The national ports system includes 18 Canada Port Authorities, listed below, along with the Port of Oshawa, which was a Harbour Commission port until February 2012 and operated under the Harbour Commissions Act of 1964. Strategically located at the eastern edge of the Greater Toronto area, the port serves industries with specialized needs and dependent on reliable and cost-effective water transportation.

Additionally, as of December 2014, 499 of the 549 Transport Canada port facilities across Canada have been either transferred or demolished or had their public harbour status terminated.

In 2014, Canada’s registered fleet consisted of 188 vessels (with >1000 gross tonnage) with a total gross tonnage of 2.6 million gross tonnes. The dry bulk carriers accounted for the majority of the fleet, with 52% of the gross tonnage and 36% of vessels, followed by tankers and general cargo vessels. Canada also has an enormous fleet of 330 tugs and 1,120 barges operating mainly on the Pacific coast.

The chart below outlines the geographies of the 18 CPAs:

<table>
<thead>
<tr>
<th>West Coast (all in British Columbia)</th>
<th>Central (all in Ontario)</th>
<th>East Coast/Quebec/ maritime provinces</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metro Vancouver*</td>
<td>Hamilton</td>
<td>Belledune, NB</td>
</tr>
<tr>
<td>Nanaimo</td>
<td>Oshawa (Harbour Commission)</td>
<td>Halifax, NS</td>
</tr>
<tr>
<td>Port Alberni</td>
<td>Thunder Bay</td>
<td>Montreal, QC</td>
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<tr>
<td>Prince Rupert</td>
<td>Toronto</td>
<td>Quebec City, QC</td>
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<td></td>
<td>Windsor</td>
<td>Saguenay, QC</td>
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<td></td>
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<td>Sept-Îles, QC</td>
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<td></td>
<td></td>
<td>St. John’s, NL</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trois-Rivières, QC</td>
</tr>
</tbody>
</table>

* On 1 January 2008, the Fraser River, North Fraser and Vancouver Port Authorities were merged into one port authority, the Vancouver Fraser Port Authority, or in its marketed name, Port Metro Vancouver.

5.1.2 Port facilities

The following services are available at most ports operated by CPAs:

- Stevedoring
- Storage
- Bunkering
- Tugboats
- Trucking
- Repairs and maintenance
- Cranes
• Divers
• Dirty ballast
• Petroleum products bunkering
• Fish off-loading operators
• Medical services
• Fresh water
• Ship Chandler firms (supply provisioning)
• Transportation and rail connections

As many of these services are provided by contractors and not by the port, it is important to contact the port to verify whether all of the services are currently available. A listing of CPAs' contact information can be found in the Association of Canadian Port Authorities (ACPA) Membership Directory.

In March 2013, amendments were made to the Port Authorities Operations Regulations. The amendments will enable the Oshawa Port Authority to discharge its duty to maintain safe and orderly operation of the port. The amendment to the Regulations lists whether an activity is prohibited or permitted at the port, and, if permitted, it determines how authorization is provided.

In April 2015, the Canadian transport ministry announced the Ports Asset Transfer Program (PATP), a proactive and structured program to facilitate the engagement, sale and/or divestiture of 50 Transport Canada-owned port facilities to local interests. The new program aims to establish -

1) Definite timelines for negotiations and transactions with interested parties,
2) Broader criteria for port expansion and improvement
3) Greater flexibility for continued operations or possible alternate uses of ports

5.1.2.1 Additional information relating to Port Metro Vancouver

Port Metro Vancouver is responsible for the operation and development of the assets and jurisdictions of the combined Fraser River Port Authority, North Fraser Port Authority and Vancouver Port Authority.

Port Metro Vancouver is a financially self-sufficient corporation, established by the government in January 2008, pursuant to the Canada Marine Act, and accountable to the Federal Minister of Transport. It is governed by a board of directors that represents the government and industry. It is permitted to make decisions on business plans and capital spending and is focused on the needs of port users.

It is the largest and busiest port in Canada and the most diversified port in North America. The port handled 140 million tonnes of cargo in 2014. It houses 28 deep-sea marine cargo terminals, 2 international cruise terminals and several domestic short-sea shipping terminals. The port's direct contribution to gross domestic product (GDP) was CAD$9.7 billion in 2014. It generated close to 100,000 jobs in Canada and handled close to 19% of Canada's total trade in goods. Most of these terminals are privately owned and operated on land and/or water lots leased from Port Metro Vancouver. It also has a number of smaller facilities capable of handling domestic and regional cargo.

The port covers nearly 600km of coastline from Point Roberts at the US-Canada border, along the southern shore of Burrard Inlet, up Indian Arm and the north shore of Burrard Inlet, and from the mouth of the Fraser River, eastward to Fraser Valley, north along the Pitt River to Pitt Lake, including the north and middle arms of Fraser River.

The port also offers integrated services for the automobile and coastal forest industries and serves as a hub for the Vancouver-Alaska cruise industry. In 2014, nine infrastructure projects worth CAD$450 million were completed at Port Metro Vancouver. The Port also adopted a land use plan, which includes a framework for how the port will use land and waters under its jurisdiction for the next 15 to 20 years. In 2014, investment of approximately CAD$98 million on port improvements and expansion was carried out. This included the CAD$56 million purchase of the Fraser Wharves property.

Port Metro Vancouver has announced a 2015–2019 capital plan with an investment outlay of approximately
CAD$1 billion in total spending to increase port capacity, optimize use of its land inventory and improve supply chain efficiencies.

5.1.2.2 Additional information relating to the Port of Montréal

The port is located in the most industrialized region of the continent and serves approximately 100 million Canadian and American consumers linking more than 140 countries around the world. It handles more than 2,000 ships annually, up to 2,500 trucks per day, and 60 to 80 trains per week. Its strategic location has led to the establishment of manufacturing centers along its water, rail and road networks. Approximately half of the port’s containerized cargo traffic is concentrated in the Canadian market, targeting Quebec and Ontario. The other half is transported to or from US markets, mainly the Midwest (Illinois, Michigan, Minnesota, Wisconsin and Ohio) and the Northeast (New England and New York state).

The Port of Montréal has the following facilities to handle various types of cargo:

- 4 modern container terminals covering approximately 90 hectares
- Large, open areas for handling dry bulk, including a terminal at Contrecoeur, approximately 40km downstream from Montréal
- Two multipurpose terminals
- 15 transit sheds for non-containerized general cargo and dry bulk
- A grain terminal with storage capacity of 262,000 tons
- 11 berths for petroleum products and other liquid bulk
- A railway network with more than 100km of track serving almost every berth
- A passenger terminal for cruise ships
- Cranes with heavy-lift capacities
- Special ramps for roll-on, roll-off cargo

There is also on-site access to repair, bunkering, towing, mooring and other essential services.

In 2014, redevelopment of land took place in the Viau and Maisonneuve sectors that is expected to add 200,000 TEUs (20-foot equivalent unit containers) of capacity for the port.

5.1.3 Transportation close to major ports

Canada’s major ports are linked to the road and rail system, while some ports also enable connectivity to major airports (e.g., Vancouver, Toronto, Montreal, Halifax, St. John’s).

5.2 Maritime education

Major maritime educational institutions in Canada include:

- British Columbia Institute of Technology (BCIT) – Pacific Marine Training Campus
- Camosun College (Victoria)
- The Canadian Coast Guard College (Nova Scotia)
- Georgian College, Owen Sound Campus (Ontario)
- L’institut Maritime du Québec
- The Marine Centre, Holland College, Prince Edward Island
- Marine Institute (Fisheries and Marine Institute of Memorial University of Newfoundland)
- Nova Scotia Community College

5.3 Safety and environmental issues

5.3.1 Implementation of the International Safety Management Code on board vessels

Canada was one of the member countries of the International Maritime Organization (IMO), which was instrumental in implementing requirements for safety management systems on all ships trading internationally. The systems were mandated for Canadian international shipping through the Safety Management Regulations, which introduced the International Safety Management (ISM) Code in 1998 and expanded the scope of its application in 2002. Transport Canada has reported some success in promoting
the voluntary adoption of the ISM Code by domestic shipping companies. It has also developed guidance materials for small passenger vessels operating internationally, given that a full-blown ISM Code would not be feasible in such cases.

In July 2014, amendments were made to the Marine Transportation Security Regulation to meet mandatory requirements set by the International Maritime Organization (IMO). Amendments incorporate changes made to the international convention on standards of training, certification and watch keeping (STCW) for seafarers. The amendments will ease regulatory compliance burden for operators, cut red tape for businesses, and eliminate duplication and impediments to trade without compromising marine security. Changes made will align regulatory approaches with the United States regulatory regime.

### 5.3.2 Implementation of Vessel Pollution and Dangerous Chemicals Regulations

In October 2013, the Canadian government issued a protective direction requiring any person who imports or offers to transport crude oil to conduct classification tests on crude oil.

Any such person must:

- Conduct classification testing of any crude oil being classified as UN 1267 or UN 1993 that has not undergone classification testing since 7 July 2013
- Make the test results available to Transport Canada upon request
- Update safety data sheets and immediately provide them to Transport Canada’s Canadian Transport Emergency Centre

In April 2012, Transport Canada enacted Vessel Pollution and Dangerous Chemicals Regulations to eliminate the discharge of vessel-source pollutants into the marine environment and promote the safe operation of chemical tankers, in line with the Canadian Government’s intent. The regulations repeal and replace the previous Regulations for the Prevention of Pollution from Ships and for Dangerous Chemicals and Pollutant Discharge Reporting Regulations, 1995.

The transport of dangerous goods would require sturdier means of containment to enhance safety, in line with the Transportation of Dangerous Goods Act that was amended in June 2014. The amendment incorporates international recommendations and regulations. It also reduces administrative burden on the industry and entails reciprocity between Canada and the US on the means of containment regulatory requirements.

In January 2015, certain rules were amended under the Vessel Pollution and Dangerous Chemicals Regulations (the Regulations) mandating that sulphur content requirements for marine fuel shall be 0.1% in a bid to control harmful emissions from vessels.

### 5.3.3 Implementation of identification and tracking regulations

In November 2010, Transport Canada implemented the Long-Range Identification and Tracking of Vessels Regulations to further improve safety and security at sea. The new regulations are expected to help track Canadian vessels that make international trips and monitor foreign vessels up to 1,000 nautical miles off Canada’s coasts. These regulations apply to Canadian passenger vessels with more than 12 passengers and to Canadian international cargo vessels, including high-speed craft and tugs of more than 300 gross tonnage.

### 5.3.4 Implementation of fire and boat drills regulations

In May 2010, Transport Canada announced the implementation of fire and boat drills regulations to enhance passenger safety. These regulations mandate that an accurate count of persons on board a vessel should be available for search and rescue workers. It also mandates the master of the vessel to maintain a muster list at all times so as to be equipped to deal with emergencies of all kinds. They also require passengers and crew to know when to abandon a vessel and how to react safely and efficiently to an onboard emergency.

### 5.3.5 Implementation of domestic ferry security regulations

In December 2009, Transport Canada announced the implementation of its Domestic Ferries Security Regulations to increase protection for 18 domestic ferry routes and 29 ferry facilities across the country.
These new regulations establish a framework for detecting security threats and taking preventive measures.

5.3.6 Safety rules pertaining to manning
All vessels that require an inspection certificate, as identified in the Vessel Certificates Regulations, must have a Safe Manning Document (SMD). This mandates minimum safe crewing levels for the vessel. The certificate is valid for a maximum of five years after the day of its issue. Details about the SMD can be found in the Marine Personnel Regulations.

5.3.7 Special regulations on safety and the environment
Annex VI of the regulations of the International Convention for the Prevention of Air Pollution from Ships, 1973 (MARPOL) includes IMO requirements for air emissions, covering topics such as ozone-depleting substances, nitrogen oxide emissions from new diesel engines and the sulfur content of fuel oil. These international regulations came into force in May 2005. Section 658 of Part XV of the CSA 2001 has the authority to implement MARPOL requirements.

The US and Canada approached the IMO to become an emission-control area (ECA). The combined US and Canadian ECA will stretch 200 nautical miles around the coastline of both the countries. In October 2011, Canada signed a protocol at IMO to help ensure proper compensation for victims of marine pollution and penalization of polluters.

In October 2009, the Canadian Government ratified the Supplementary Fund Protocol of 2003 to the 1992 International Oil Pollution Compensation Fund and the International Convention on Civil Liability for Bunker Oil Pollution Damage, 2001 (Bunkers Convention), which came into force on 2 January 2010. These conventions significantly enhanced the existing liability and compensation regimes for pollution damage from ships.

In October 2011, the Navigation Safety Regulations under CSA, which implements provisions and standards for navigation equipment for the safety of life at sea and protection of the marine environment, have replaced certain sections on voyage data recorders (VDRs). Accordingly, VDRs are now required for all new passenger vessels of 500 gross tonnage or more and for new cargo vessels of 3,000 gross tonnage or more that are not engaged solely on inland voyages.

In November 2011, Ballast Water Control and Management Regulations were updated to control invasive species and pathogens from entering waters under Canadian jurisdiction. These regulations have replaced Ballast Water Control and Management Regulations made under the previous CSA.

In October 2012, amendments were introduced to the Navigable Waters Protection Act, which allows for the building of bridges and other work that might interfere with navigation. The amendments would help reduce delays in seeking approval for the construction of bridges and other work. In March 2013, the Canadian government amended the Transportation of Dangerous Goods Regulations to provide greater clarifications on requirements for certain goods.

In May 2014, former Prime Minister Stephen Harper launched the National Conservation Plan (NCP), which includes funding of CAD$252 million from 2014 to 2019. The plan entails strengthening marine and coastal conservation, restoring wetlands, conserving species and securing ecologically sensitive lands. In September 2015, the Canadian government announced plans to increase marine protected areas by 5% by 2017 and 10% by 2020.

5.4 Key federal investments in the marine sector
In July 2015, the governments of Canada and Manitoba announced an investment of CAD$22.1 million to build an innovative research facility at the Port of Churchill, Canada's only Arctic deep water port. The investment will be made over a period of four years with the province of Manitoba investing CAD$9.7 million and the Government of Canada's technology funding body Canada Foundation for Innovation (CFI) funding the rest.

In July 2015, the Canadian government announced CAD$68.3 million in federal funding for modernization
of the Port Saint John’s Westside terminals. The project will help in modernizing and consolidating terminals, thereby enabling it to accommodate larger vessels.

In March 2015, the government of Quebec made an investment commitment of more than CAD$1.5 billion to support the marine industry and to promote the implementation of logistics hubs. This includes a CAD$75 million investment to improve direct road access to the Montreal Port Authority and CADS$20 million towards the restoration of Alexandra Pier and the Iberville Passenger Terminal for cruise passengers.

In September 2013, the Canadian Government announced infrastructure investments worth CAD$106 million to strengthen the border, improve marine container inspection capacity, and increase efficiency at Port Metro Vancouver. The investment is expected to increase the country’s exports to new markets by moving goods, services and people in a more effective manner, strengthening trade ties with fast-growing Asia-Pacific markets and building on its competitive advantages. Earlier, in July 2013, the Canadian Government announced funding of CAD$225,000 for a short-sea shipping project in British Columbia, further strengthening Canada’s Asia-Pacific Gateway and Corridor Initiative. This project is expected to support Canada’s Asia-Pacific Gateway transportation network and strengthen its exports in fast-growing Asian markets.

### 5.5 Registration

**5.5.1 Registration requirements**

Vessels are categorized into two categories: pleasure vessels (used for recreational purposes) and non-pleasure vessels. Pleasure craft can either be licensed or registered. Pleasure craft licenses are applicable for vessels that are used only for recreational purposes and do not carry passengers. Vessels powered by an engine of 10 horsepower (7.5W) or more need to be licensed mandatorily, unless they are registered in the Canadian Register of Vessels. There are no licensing fees for getting a vessel registered. One may also register their pleasure vessel in the Canadian Register of Vessels if he/she wishes to have an approved name and port of registry for the vessel, register a mortgage, or show proof of ownership.

A vessel must be registered mandatorily, if it is not a pleasure craft; is wholly owned by qualified persons; and is not registered, listed or otherwise recorded in a foreign state.

However, all government vessels must be mandatorily registered.

All non-pleasure vessels are required to be registered with either the Canadian Register of Vessels or the Small Vessel Register. Non-pleasure vessels having a capacity of more than 15 gross tonnes and used for commercial purposes, including government owned vessels and vessels requiring marine mortgages are required to register their vessels with the Canadian Register of Vessels. Non-pleasure vessels with a capacity of less than/equal to 15 gross tonnes and used for commercial purposes, commercial river rafts, government-owned vessels with propulsion motors of 10 horsepower (7.5kW) or more and small commercial vessels licensed with Canada Customs prior to 1998 on behalf of Transport Canada are required to register with the Small Vessel Register. Vessels that require marine mortgage must be registered in the Canadian Register of Vessels.

In March 2011, the Canadian Government announced that owners of human-powered vessels, such as canoes, kayaks and small sailing vessels, as well as of small vessels with motors less than 7.5kw (10hp), are not required to register their craft with Transport Canada.

In April 2014, the Port Authorities Operations Regulation Act was amended to mandate container trucking companies to have provincial licenses to access Port Metro Vancouver. This was done to bring efficiency and stability to container trucking at Canada’s busiest port. The commissioner of container trucking (a new provincial office) will be responsible for licensing container trucking companies doing business at Port Metro Vancouver. The Minister of Transport also committed to increase the regulated trip rates paid by trucking companies by 12% and double fuel surcharge from 1% to 2%. These measures were taken to ensure that truck drivers are paid fair compensation.
In 2014, an amendment was made to the fees charged by Western Canada Marine Response Corporation as
annual membership and for carrying bulk oil cargo from ships operating in WCRMC geographic jurisdiction.
According to the amendment, from 1 January 2015, all registered ships are required to pay CAD$775,
plus applicable taxes as annual membership fees. Ships carrying oil are required to pay bulk oil cargo fees
of CAD$1.5 plus applicable taxes per ton of oil (other than asphalt) and CAD$0.775 plus taxes per ton for
asphalt from 1 January 2015.
In March 2015, Transport Canada brought forward amendments to exempt vessels engaged in certain
types of activities, or with smaller engine sizes from registration. However, the exemption would not apply
in respect of vessels that carry more than 12 passengers. The regulatory amendments will also authorize
the Minister of Transport, under certain terms and conditions, to exempt vessels or classes of vessels, on a
case-by-case basis, from registration for a specified period of time if the Minister is of the opinion that marine
safety would not be adversely affected.

5.5.2 Ship registration procedures
Per the CSA 2001, Part 2, Section 51:

An application for registration, listing or recording of a vessel must be “made in the form and manner, include
the information and be accompanied by the documents specified by the Chief Registrar.”

In addition to the specified information and documents, the Chief Registrar may require an applicant to
provide evidence, including declarations, considered necessary to establish that a vessel is required or
entitled to be registered, or is entitled to be listed or recorded.

Once all of the requirements have been met, the vessel is registered, and a certificate of registry is issued.
This certificate must be on board at all times during the vessel’s operation for identification purposes. If the
vessel is less than or equal to 15 gross tonnage, the owner can choose to register the vessel to obtain the
benefits of registration, but this is not mandatory.

Registration forms are available at any Port of Registry office or from the Transport Canada website: www.

Effective 1 April 2013, all regional offices located across Canada were centralized to Transport Canada
headquarters in Ottawa. The headquarters office will continue to provide functional direction, as well as
deliver the national vessel registration program and process routine applications.

5.5.3 Parallel registration
A foreign-registered, bareboat-chartered vessel may apply to fly the Canadian flag while appearing on the
register of a foreign country.

5.5.4 Requirements for officers and crew serving on vessels
Presentation of documents
The master of a Canadian vessel will need to make sure that each person employed on board presents all
Canadian maritime documents required under Part 3 of the CSA 2001 for that particular position.

Certificates
Every person employed on board a Canadian vessel in a position where a certificate is required under Part 3
of the CSA 2001 will need to hold the certificate and comply with its terms and conditions.

Eligibility
Only a Canadian citizen or a permanent resident within the meaning of Subsection 2 (1) of the Immigration
and Refugee Protection Act may hold a Certificate of Competency, with exceptions made for holders of
equivalent certificates from foreign countries, whose certificates may be recognized.

5.5.5 Special requirements and rules relating to registration
There are more requirements, forms and procedures related to ship registration. Information on these can
be found in the Canada Shipping Act 2001 and on the Vessel Registration Office website (www.tc.gc.ca/eng/
6. **Consulted resources**

### Human capital

### Corporate structure

### Grants and incentives
- “Ferry Services Contribution Program,” Transport Canada website, www.tc.gc.ca/eng/programs/ferry-


General information


• Port Metro Vancouver Annual report 2014


• Port Montreal Annual report 2014

China

1. Tax

1.1 Tax facilities for shipping companies

Corporate income tax

Foreign shipping companies that operate in international traffic may be liable for corporate income tax (CIT) at 25% on net earnings sourced from China (China refers to the mainland of the People's Republic of China in this publication), which is deemed to be 5% of the gross revenue derived from the carriage of passengers, cargo or mail from international traffic originating from China, resulting in an effective CIT rate of 1.25% (i.e., 5% × 25%). The taxable gross revenue includes ticket charges, overweight luggage charges, catering service charges, insurance, service fee, entertainment charges, base freight charges and various surcharges. Transportation charges paid to subcontracting transportation companies cannot be deducted from gross revenue.

Effective from 1 August 2014, foreign shipping companies should be subject to CIT at the rate of 25% on their China-sourced income derived from both outward and inward transportation services conducted in China. The operational income derived from voyage charter, time charter of vessels by foreign shipping companies should also be treated as transportation service income and be subject to CIT at 25% on the taxable profit, while the income arising from bareboat charter or lease of containers or other shipping vehicles should be treated as rental income and be subject to withholding income tax at 10% on the gross income.

Foreign shipping companies are generally required to calculate income from international transportation business based on accurate and complete accounting books and records. If the bookkeeping requirements cannot be met, they should be taxed on no less than 15% of their gross income sourced from China, resulting in a minimum effective CIT rate of 3.75% from 1 August 2014. A foreign shipping company could be exempt from CIT if it is a tax resident in a jurisdiction that has signed a double tax treaty or another international convention with mainland China.

Enterprises registered locally and engaged in shipping business are subject to CIT in China on their worldwide income. The statutory tax rate is 25%. The amended CIT law, effective from 1 January 2008, has revised the previously geographic- and ownership-based preference system (for instance, a reduced tax rate or tax holidays were available to foreign-invested shipping businesses in terms similar to manufacturing enterprises) into an industry-based one. So far, no industry-based tax preferences have been announced for the shipping industry except under the regulations for Pingtan Comprehensive Pilot Zone in Fuzhou, where qualified enterprises registered and engaged in the maritime transportation business to Taiwan could enjoy a reduced CIT rate of 15% for a period of seven years from 1 January 2014.

Effective from 15 December 2008, income derived by shipping enterprises from Taiwan (hereinafter generally referred to as “TSEs“) from cross-strait direct marine navigation is exempt from CIT provided that the TSE obtains relevant permit from the Chinese Ministry of Transportation (MOT) and separately books the relevant revenue, costs and expenditure.

Value-added tax

Effective from 1 January 2012, Shanghai (municipal) was selected as the first city for the value-added tax (VAT) pilot program. As of 31 December 2012, Beijing (municipal), Anhui Province, Jiangsu Province, Fujian Province, Guangdong Province, Tianjin (municipal), Zhejiang Province and Hubei Province also started the VAT pilot program. On 1 August 2013, the VAT pilot was rolled out nationwide for transportation services (excluding railway transportation, which is only added to the VAT pilot scope effective from 1 January 2014) and transportation-related auxiliary services.

Under the VAT pilot program, provision of water transportation within mainland China should be chargeable to VAT. Whether a service is subject to VAT depends on whether the service provider or the recipient is located within mainland China. Payers are obliged to withhold VAT on payments to foreign enterprises for
services subject to VAT.

VAT general taxpayers engaged in transportation activities and transportation-related auxiliary services are subject to a tax rate of 11% and 6%, respectively, with input VAT creditable against output VAT. Enterprises with annual taxable revenue below CNY5 million may elect to be VAT small-scale taxpayers (with exceptions). VAT small-scale taxpayers are subject to a collection rate of 3% on their taxable revenue, with no input VAT credit allowed.

Chinese enterprises with general VAT payer status and qualified international transportation licenses may enjoy a 0% VAT rate on the provision of international transportation services.

Chinese enterprises without qualified international transportation licenses or without general VAT payer status could be eligible for VAT exemption on the provision of international transportation services.

Under the VAT pilot regulations, revenue derived by a TSE from the provision of cross-strait direct water transport is exempt from VAT.

Foreign enterprises or individuals who provide international traffic services to Chinese customers should be subject to VAT at the applicable tax rate, with no input VAT credit allowed, unless exempted under the applicable VAT rate is 11% for transportation services and 6% for freight agency services and shipping agency services.

Local levies

Starting 1 December 2010, foreign-invested enterprises, foreign enterprises and foreign individuals are liable to pay city construction tax (CCT) and education surcharges (ES), for which only domestic enterprises and Chinese nationals were liable in the past. CCT and ES are all taxed based on indirect taxes (including VAT, business tax (BT) and consumption tax (CT) actually paid. Another local levy, local education surcharges (LES), is also imposed on all companies and individuals based on indirect taxes actually paid by them. The effective date of imposing LES depends on the regulations of the local governments.

The relevant CCT, ES and LES rates are listed below:

<table>
<thead>
<tr>
<th>Levy basis</th>
<th>Levy rate</th>
<th>Effective date</th>
</tr>
</thead>
<tbody>
<tr>
<td>CCT</td>
<td>1%, 5% or 7%</td>
<td>1 December 2010</td>
</tr>
<tr>
<td>ES</td>
<td>VAT, BT and CT paid</td>
<td>3% Same as above</td>
</tr>
<tr>
<td>LES</td>
<td>2%</td>
<td>Depends on the requirement of the local government</td>
</tr>
</tbody>
</table>

1.2 Taxation of profit distribution

Dividends (distributed profits) repatriated to foreign investors are subject to a withholding tax of 10% at the time when the investee company makes the dividend declaration. However, the tax rate may be further reduced by treaty relief.

1.3 Tax rates for seafarers

China does not have specific tax rules for seafarers. In general, foreigners staying in China are treated as residents if their physical presence in China has lasted for more than one year, though in practice, they are normally taxed only on income from Chinese sources. Individual income tax applies to both Chinese citizens and foreigners. Employment income is taxed at progressive rates ranging from 3% to 45%, while investment income is taxed at a flat rate of 20%. The rates applicable to business income derived by individuals range from 5% to 35%.

1.4 Tax treaties and place of effective management

List of tax treaty jurisdictions: Albania, Algeria, Armenia, Australia, Austria, Azerbaijan, Bahrain, Bangladesh,
China has entered into many bilateral agreements with respect to international shipping. More than 60 separate agreements deal with international shipping, and most of the double tax avoidance treaties contain a clause with respect to the taxation of international transportation. In some cases, the agreement contains a clause that income and profits from the operation of ships in international traffic are liable for indirect tax (i.e., BT or VAT) and income tax only in the jurisdictions in which the place of effective management of the business of the enterprise is located or the jurisdiction in which the enterprise operating the ships is resident (e.g., in the treaties with Denmark and the United States, respectively). In other cases, a most-favored-nation treatment is granted (e.g., in the treaties with Indonesia and some Eastern European countries).

China defines “income derived from international transport” for purposes of Chinese tax treaties as “income from the carriage of passengers or cargo by ship or aircraft, including income from business operations closely related to or auxiliary to international transport.” Such auxiliary business operations include the following activities:

- Leasing a ship or aircraft on charter (fully equipped, manned and supplied)
- Selling passenger tickets on behalf of other transportation enterprises
- Operating a bus service connecting a town with its airport to the passengers
- Transporting goods by truck connecting a depot with a port or airport or providing transportation from a port or airport to a buyer or arranging direct delivery to buyers
- The leasing of containers by enterprises engaged in international transport by ship and aircraft provided that the leasing activity is ancillary to the international transport or incidental
- Operating a hotel business only for purposes of providing transit passengers with overnight accommodation

In addition to the above, income from international transport activities carried out by enterprises whose main business is not international transportation is also considered “income derived from international transport” for Chinese tax treaty purpose.

Approval should be obtained from Chinese tax authorities to enjoy preferential tax treatment under applicable treaties.

1.5 Residence

The CIT law stipulates that a company incorporated outside China but having effective management in China shall be considered a tax resident in China.

Article 4 of the CIT Law Implementation Rules defines effective management as the “overall management and control of the production, business, employees, finance and assets of a company in substance.” The management and control should be in substance rather than in form – mere rubber-stamping activities do not count.

The Chinese tax authority has yet to issue guidelines on the relevant criteria for recognizing foreign companies as resident companies under the effective management concept. Pending the issue of such further guidance, whether a foreign company is considered a tax resident of China is dependent on the facts and circumstances of each case.
1.6 Freight taxes
China levies a “vessel tonnage tariff” on any vessels that sail from overseas to Chinese ports.

According to the China’s Provisional Regulations on Vessel Tonnage Dues issued by the State Council, a tariff shall be levied on an incoming vessel from the date of its declaration of entry at a rate ranging from CNY1.5 per ton to CNY31.8 per ton according to the classification and total tonnage of the vessel and the time period of the vessel in the Chinese port. Moreover, the tonnage of a vessel that is registered in or belongs to a foreign country that has entered into a treaty or agreement with China for mutual preferential treatment of tonnages or fees levied on vessels shall be levied at a preferential rate.

It is not necessary for vessels that have paid tonnage tariffs to pay Vessel and Vehicle Tax to the Chinese tax authorities for the period from 1 January 2012 to 31 December 2016.

1.7 Special vessel registration benefits for the shipowner
There are no special vessel registration benefits for the shipowner.

2. Human capital

2.1 Formalities for hiring personnel
Chinese shipowners and charterers must follow the requirements set forth in the China Seafarer Regulations in addition to complying with the Chinese labor laws for hiring seafarers. The regulations stipulate that “foreign seafarers” working on Chinese vessels must be in possession of work permits issued by relevant Chinese authorities, seafarer certificates issued by the MOT and identification documents issued by their home countries.

2.2 National labor law and labor contract law
The labor laws govern the labor relationship between employers and crew members within the boundaries of China.

China requires agreements to be reached between employees and employers to establish labor relationships and specify the rights, interests and obligations of each party. Labor contracts shall be concluded in written form within one month from the employment date and contain the following clauses:

- Name, location and legal representative or the key responsible person of the employing unit
- Name, address and resident identity card number or number of other valid identity document of the employee
- Time limit of the labor contract
- Job specifications and place of work
- Working hours and rest days
- Remuneration
- Social security insurance
- Labor protection, labor conditions and protection against occupational harm

Apart from the mandatory clauses specified above, the parties can include in their labor contracts other contents agreed upon through consultation.

2.3 Collective labor agreements
The employees of an enterprise may, as one party, conclude a collective labor contract with the enterprise as another party on remunerations, working hours, rest and leave days, labor safety and hygiene, insurance, welfare treatment, and other matters.

The draft of the collective contract shall be submitted to the employees’ representative assembly or all employees for deliberation and adoption.

Collective contracts shall be concluded between the trade union on behalf of the employees and the
employer. In an enterprise that has not yet set up a trade union, a union official shall guide representatives selected by the employees to conclude the contract with the employer.

**Term of contract**

The term of a labor contract may be fixed, open or assignment-specific.

An open labor contract shall be concluded between the employee and the employer under any of the following circumstances:

- The employee has worked for the employer for more than 10 consecutive years.
- When the employer implements the labor contract system for the first time, the employee had worked for the employer for more than 10 consecutive years and has less than 10 years before reaching the statutory retirement age.
- A labor contract with a fixed term has already been concluded twice.

An open contract is deemed to have been awarded to an employee if no employment contract is concluded with him or her after working for the employer for one full year.

**Minimum wage and other compulsory payments**

The employer may fix the wage level and mode of payment at its own discretion and in accordance with the law, subject to meeting minimum wage standards fixed by local governments at the provincial level.

**Leave entitlements**

Employees are entitled to the following statutory holidays:

- New Year’s Day
- Spring Festival (Chinese New Year)
- International Labor Day
- National Day
- Other holidays stipulated by the State Council including the Ching Ming Festival (tomb-sweeping day), Duanwu Festival (Dragon Boat Festival) and Mid-Autumn Festival

Besides the statutory holidays, eligible employees are also entitled to other statutory paid leave, such as annual leave, marriage leave, maternity leave, sick leave (medical treatment period), bereavement leave, etc.

**Working hours**

Statutory working hours are 8 hours per day and not more than 40 hours per week. Departure from these standards requires approval from the Ministry of Labor.

The standards for overtime payment are:

- Normal day – 150%
- Rest day – 200%
- Statutory holiday – 300%

**National and health insurance**

Employers and employees must participate in the state social security system and pay social security contributions in accordance with the law to cover the employee’s entitlement to social benefits, including:

- Retirement
- Diseases or injuries
- Disability during work or contracting occupational diseases
- Unemployment
- Maternity

China implemented Interim Measures for Social Insurance System Coverage of Foreigners Working within the Territory of China, which came into effect on 15 October 2011. According to the Interim Measures, foreign employees working in China must participate in the Chinese social security system, with both employers and
employees paying the social contributions as prescribed.
Employers and employees are also required to make contributions to a housing fund in accordance with the base, rate and floor/cap contribution required by the local regulations.

2.4 Treaties relating to social security contributions
China concluded a mutual agreement with Germany, Korea (South) and Denmark on social insurance, which came into effect on 4 April 2002, 16 January 2013 and 14 May 2014, respectively. Under mutual agreements, qualifying German, Korean and Danish employees may apply to their resident nation’s security contribution scheme if they are seconded to China.

2.5 Manning advantages/disadvantages of flying the Chinese flag
The flying of the Chinese flag brings with it the advantages and disadvantages of Chinese law, particularly employment law.

3. Corporate structure

3.1 Most commonly used legal structures for shipping activities
According to the Catalogue for the Guidance of Foreign Investment issued by the State Development and Reform Commission, there are restrictions on foreign investors’ participation in direct investment in the shipping industry, as summarized below:

Foreign investment in shipping agencies is allowed if the Chinese investors’ ownership is not less than 51%.
Foreign investment in ocean shipping tally services is allowed in the form of equity joint ventures or contractual joint ventures only.
Foreign investment in inland waterway transports or international transports of passengers or cargos by vessels is allowed if the Chinese investors’ ownership is not less than 51%.
Except for freight-forwarding agencies, the above restrictions effectively mean foreign investors in the shipping industry cannot operate as wholly owned companies in China.

According to the General Plan for China (Shanghai) Free Trade Zone (SHFTZ) published by the State Council in September 2013, the above foreign investment restrictions are relaxed in SHFTZ as follows:

Foreign investors are allowed to hold more than 49% of the equity of the joint ventures with the Chinese partners to carry out international transport of passengers or cargos by vessels.
- Foreign investors can establish wholly owned subsidiaries for ship management businesses.

In September 2014, the State Council issued a decision (Decision of the State Council on Temporarily Adjusting the Special Access Administrative Measures Prescribed in Certain Administrative Regulations and Ministerial Rules Approved by the State Council in the China (Shanghai) Pilot Free Trade Zone) to further relax the restrictions on foreign investment in the shipping sector in SHFTZ as follows:
- Foreign investors are allowed to establish wholly owned subsidiaries to engage in loading and unloading international maritime cargo, and operating international maritime container yards and container freight stations.
- Foreign investors can engage in international shipping agency business in the form of equity joint ventures or corporative joint ventures, with the foreign ownership capped at 51%.

In June 2015, MOT issued a decision (Announcement of the Ministry of Transport on the Implementation of Several Shipping Policies in National Pilot Free Trade Zones) to further extend the aforesaid regulation to Guangdong, Tianjin, and Fujian pilot free trade zones.

The standard income tax rate for foreign investment shipping companies is 25%. A reduced CIT rate of 15% is applied for qualified shipping companies in the Pingtan Comprehensive Pilot Zone in Fuzhou.
4. Grants and incentives

4.1 Investment incentives for shipping companies and the shipbuilding industry
In general, no special incentives are available to shipping companies and the shipbuilding industry, except that qualified shipping and shipbuilding companies incorporated in the Pingtan Comprehensive Pilot Zone in Fuzhou could be eligible to a preferential CIT rate of 15% for a period from 1 January 2014 to 31 December 2020.

4.2 Special incentives for environmental awareness
Chinese companies that purchase qualifying environment-protecting or water/energy-conserving equipment are eligible to enjoy a tax credit of 10% of the purchase price in the year of purchase. The excess tax credit can be carried forward for five years. However, a disposal or leasing out of said equipment within five years will mean a clawback of the tax credit accordingly.

4.3 Advantages and disadvantages of flying the Chinese flag
In principle, there are no advantages or disadvantages connected with flying the Chinese flag.

4.4 Major changes in shipping subsidy legislation anticipated in the near future
No changes are anticipated in the near future.

5. General information

5.1 Infrastructure

5.1.1 Major ports
Major China ports' container throughput in 2015
(TEU ‘000)

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Port</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Shanghai</td>
<td>36,537</td>
</tr>
<tr>
<td>2</td>
<td>Shenzhen</td>
<td>24,210</td>
</tr>
<tr>
<td>3</td>
<td>Ningbo-Zhoushan</td>
<td>20,626</td>
</tr>
<tr>
<td>4</td>
<td>Guangzhou</td>
<td>17,570</td>
</tr>
<tr>
<td>5</td>
<td>Qingdao</td>
<td>17,500</td>
</tr>
<tr>
<td>6</td>
<td>Tianjin</td>
<td>14,500</td>
</tr>
<tr>
<td>7</td>
<td>Dalian</td>
<td>9,301</td>
</tr>
<tr>
<td>8</td>
<td>Xiamen</td>
<td>9,180</td>
</tr>
<tr>
<td>9</td>
<td>Yingkou</td>
<td>5,922</td>
</tr>
<tr>
<td>10</td>
<td>Suzhou</td>
<td>5,238</td>
</tr>
</tbody>
</table>

Source: Shanghai International Shipping Institute

Major China coastal ports' cargo throughput in 2014 (2015 figures not yet published)
(TEU ‘000,000)
The port of Shanghai is situated at the middle of the 18,000-km-long Chinese coastline, where the Yangtze River, known as “the Golden Waterway,” flows into the sea. It is the leading port in the T-shaped waterway network comprising the Yangtze River and the coastline, and is also China’s largest comprehensive port and one of the country’s most important gateways for foreign trade. It faces toward the northern and southern coastal seas of China and the oceans of the world, and is linked with the Yangtze River and the inland waterways of the Yangtze River Valley region, such as the Jiangsu, Zhejiang and Anhui provinces. Expressways and state-level highways connect the port to the national highway network and thus to all regions of the country. Thus, the port enjoys an advantageous geographical location, favorable natural conditions, vast economically developed hinterlands, and complete inland distribution infrastructure and facilities.

### 5.1.2 Port facilities
The following support facilities are readily available:
- Maintenance and repair
- Docking
- Storage
- Cranes for every size of vessel

### 5.1.3 Support services for the shipping industry
The following support services for the shipping industry are available:
- Banks with a shipping desk
- Consulting firms specializing in shipping
- Maritime law services
- Insurance brokers for the shipping industry

### 5.1.4 Maritime education
Two types of systems for Maritime Education and Training (MET) exist in China: Higher Maritime Education and Vocational Maritime Education. The first is at the university level, a four-year course leading to a degree; the second is a vocational type of education at either colleges or training centers. Students educated and trained through either system can obtain the highest Certificate of Competence (COC) for officers, i.e., Master or Chief Engineer COC.

---

**Ranking Port 2014**

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Port</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ningbo-Zhoushan</td>
<td>873</td>
</tr>
<tr>
<td>2</td>
<td>Shanghai</td>
<td>755</td>
</tr>
<tr>
<td>3</td>
<td>Tianjin</td>
<td>540</td>
</tr>
<tr>
<td>4</td>
<td>Tangshan</td>
<td>501</td>
</tr>
<tr>
<td>5</td>
<td>Guangzhou</td>
<td>499</td>
</tr>
<tr>
<td>6</td>
<td>Qingdao</td>
<td>465</td>
</tr>
<tr>
<td>7</td>
<td>Dalian</td>
<td>428</td>
</tr>
<tr>
<td>8</td>
<td>Rizhao</td>
<td>353</td>
</tr>
<tr>
<td>9</td>
<td>Yingkou</td>
<td>345</td>
</tr>
<tr>
<td>10</td>
<td>Qinhuangdao</td>
<td>275</td>
</tr>
</tbody>
</table>

Source: Shanghai International Shipping Institute
China is one of the major MET countries. According to the MOT and Gao Hongfeng, the vice-minister of MOT, there are 15 universities providing higher maritime education and more than 70 colleges and training centers providing vocational maritime education. The universities and colleges enroll more than 18,000 new students every year.

The most famous higher-level institutions are:
- Dalian Maritime University (DMU)
- Jimei University (Maritime College)
- Ningbo University (Marine College)
- Shanghai Maritime University (SMU)
- Wuhan Polytechnic University (Marine and Inland Water College)

Among these five MET universities, DMU is the only key maritime institution under the MOT; the four others are the responsibility of local governments.

In vocational maritime education, the vocational maritime institutions are divided into three levels: higher vocational colleges, intermediate vocational schools and maritime technical schools. The most famous vocational institutions are the Qingdao Ocean Shipping Mariners College and the Zhuhai Navigation School. The Qingdao Ocean Shipping Mariners College is affiliated with and operated by China Ocean Shipping Companies (the COCSO group). This is one of the institutions for higher-level adult education.

The entrance to different levels of maritime institutions is based on the grades that students obtain in the National College Entrance Examination (NCEE). Students with higher grades are admitted to universities, while others pursue MET at vocational institutions.

5.2 Safety and environmental issues

5.2.1 Implementation of the International Safety Management Code

The majority of the shipping companies have implemented the International Safety Management (ISM) Code on board their vessels. The ISM Code provides an international standard for the safe management and operation of ships and for pollution prevention. The purpose of ISM Code is:
- To ensure safety at sea
- To prevent human injury or loss of life
- To avoid damage to the environment and to the ship

The International Convention for the Safety of Life at Sea (SOLAS) adopted the ISM Code in 1994 and incorporated it into Chapter IX. By 1998, much of the commercial shipping community was required to be in compliance with the ISM Code. By 2002, almost all of the international shipping community was required to comply with the ISM Code.

Such compliance requires that each ship class have a working safety management system (SMS). Each SMS consists of the following elements:
- Commitment from top management
- A top-tier policy manual
- A procedures manual that documents what is done on board the ship
- Procedures for conducting both internal and external audits to ensure the ship is doing what is documented in the procedures manual
- A designated person to serve as the link between the ship and shore staff
- A system for identifying where actual practices do not meet those that are documented and for implementing associated corrective action
- Regular management reviews

In China, the Maritime Safety Administration (MSA) supervised the managerial process of ship-examining institutions, completed the certificate approval authorized to ship-examining institutions in marine areas, and maintained that surveyors must be certified and responsible for faults. Thirteen hundred
international voyage ships owned by 170 companies have been brought into the management system of ISM regulations. The SMS has been conducted nationwide, with some ship enterprises having already established the system.

5.2.2 Safety rules related to ISM
- Rules on Audit and Certificate of Shipping Company Safety Management System
- Guideline on the Audit of Company Safety Management System
- Guidelines on Port State Control for Compliance with ISM Code
- The Rules on the Auditor’s Qualification of Company SMS
- The Rules on Auditor Management of Company SMS

5.2.3 Special rules, regulations, laws and measures regarding the environment
- Environmental Protection Law of China
- Law of China on the Prevention and Control of Water Pollution
- The Law of China on the Prevention and Control of Atmospheric Pollution
- The Law of Port of China
- The Law of China on Marine Environmental Protection
- Environmental Impact Assessment Law of China
- Regulations on Safe Management of the Dangerous Chemicals of China
- Regulations on Prevention of Pollution from Ships at Sea of China
- Regulations on Prevention of Pollution from Ships’ Demolition of China
- Regulations on Environmental Protection from Marine Petroleum Exploration and Exploitation of China
- The Act of Safety Supervision of Ships Carrying Dangerous Goods of China
- Rules on Dangerous Goods' Declaration for the Ships Carrying Foreign Trade Cargo of China
- The Act on the Management of Dangerous Goods in Ports of China
- Rules on Investigation of Marine Pollution Accident from Ships
- Rules on Marine Pollution Accident Investigation Officers

5.2.4 Special rules, regulations, laws and measures regarding safety
- Maritime Traffic Safety Law of China
- Marine Environment Protection Law of China
- Port Law of China
- Frontier Health and Quarantine Law of China
- Administrative License Law of China

5.3 Registration

5.3.1 Registration requirements
The following ships shall be registered in accordance with the provisions of Regulations of China Governing the Registration of Ships (RROS):

Ships owned by citizens of China whose residences or principal places of business are located within the territory thereof

Ships owned by enterprises with legal person status established under the laws of China and whose principal places of business are located within the territory thereof (provided that foreign investment is involved, the proportion of registered capital contributed by Chinese investors shall not be less than 50%)

Service ships of the government of China and ships owned by institutions with legal person status

Other ships whose registration is deemed necessary by the competent authority of harbor superintendence of China. Military ships, fishery ships and sports craft shall be registered in compliance with the provisions of the relevant laws and regulations.
Sailing ships are allowed to fly the national flag of China after being registered and granted nationality. No ship may fly the national flag of China without being registered during navigation.

A ship shall not have dual nationality. A ship registered abroad shall not be granted Chinese nationality unless its former registration of nationality has already been suspended or deleted.

The acquisition, transference or extinction of the ownership of a ship shall be registered at the ship registration administration; no acquisition, transference or extinction of the ship's ownership shall be effective as against a third party unless registered. Where a ship is jointly owned by two or more legal persons or individuals, the joint ownership thereof shall be registered at the ship registration administration. The joint ownership of the ship shall not be effective against a third party unless registered.

The establishment, transference or extinction of ship mortgage or bareboat chartering shall be registered at the ship registration administration. No mortgage or bareboat chartering shall be effective as against a third party unless registered.

Seafarers on board ships of Chinese nationality who are required to possess COCs shall hold the appropriate COCs issued by China.

The Maritime Safety Administration of China is the competent authority in charge of registration of ships. The Maritime Safety Administrations at various ports are the proper agencies conducting the registration of ships (hereinafter referred to as the ship registration administration). The scope of authority thereof shall be defined by the Maritime Safety Administration of China.

The port where a ship is registered shall be the port of registry of the ship. The owner of a ship may choose a port closer to his residence or his principal place of business as the port of registry, but he is not allowed to choose two or more ports as the port of registry.

Each ship shall have only one name. The name of a ship shall be checked and approved by the ship registration administration at its port of registry. A ship's name shall not be the same as any of those that have already been registered, neither in wording nor in pronunciation.

The ship registration administration shall establish a register of ships. The register of ships shall be accessible to those having an interest therein.

With respect to a state-owned ship operated by an enterprise owned by the whole people having a legal person status granted by the state, the provisions of RROS concerning the ship owner shall be applicable to that legal person.

5.3.2 Ship registration procedure
A shipowner applying for registration of the ownership of a ship shall present the ship registration administration at the port of registry with documents evidencing his legal status, and submit the originals and copies of the documents evidencing his ownership over the ship and the technical information thereof. For the registration of ownership of a ship purchased, the following documents shall be submitted:

- The seller's invoice, sales contract and delivery document
- A document issued by the ship registration authority at the original port of registry certifying the deletion of ownership
- Documents evidencing that the ship is not under mortgage or that the mortgagees agree to the transference of the mortgaged ship

For the registration of ownership of a newly built ship, the contract of ship construction and the delivery document shall be submitted. For the registration of ownership of a ship under construction, the contract of ship construction shall be submitted. For the registration of ownership of a ship built by oneself for one's own use, a document evidencing the procurement of ownership shall be submitted. For the registration of ownership of a ship procured through heritage, presentation, auction under legal process or court judgment, a document with appropriate legal effect evidencing the ship's ownership shall be submitted.

The ship registration administration, having examined and verified the application for registration of
ownership, shall issue to the shipowner whose application meets the requirements of RROS the Certificate of Registration of Ship's Ownership within seven days after the date of receipt of the application, whereupon an official registration number shall be assigned to the registered ship and the following particulars shall be recorded in the Register of Ships:

- The ship's name and its call sign
- The port of registry, official registration number and identification mark of the ship
- The name and address of the shipowner and name of its legal representative
- Accrurement
- The date on which the ship's ownership was registered
- The name of the shipbuilder, and time and place of building
- The value of the ship, material of ship's hull and ship's main technical data
- The original name and port of registry of the ship and the date of deletion or suspension of its original registration
- Information about joint ownership if the ship is owned by two or more owners
- The name and address of bareboat charterer or ship operator, and the name of its legal representative if the shipowner is not the one who operates or actually controls the ship
- Information on the establishment of mortgage, if any

The ship registration administration shall inform the shipowner in writing of any noncompliance of his or her application with RROS within seven days after the date of receipt of the application.

### 5.3.3 Parallel registration

Where a ship is bareboat-chartered overseas, the shipowner shall apply to the ship registration administration at the port of registry for registration of the bareboat charter by submitting the documents specified in Article 26 of RROS. After the application has been examined and verified to be in compliance with the requirements of these regulations, the ship registration administration shall suspend or delete the nationality of the ship in accordance with Article 42 of RROS and issue to the applicant the Certificate of Registration of Bareboat Charter in duplicate.

Where a ship is bareboat-chartered from overseas, the charterer shall choose the port of registry for the ship according to Article 9 of RROS and apply, prior to the commencement of the charter, to the ship registration administration for registration of the bareboat charter by submitting the following documents:

- The original and a copy of the bareboat charter party
- The ship's valid technical certificates issued by an authorized organization for ship survey
- A certificate issued by the ship registration authority of the former port of registry to the effect that the former nationality of the ship has been suspended or deleted, or that the former nationality of the ship will be suspended or deleted immediately when the new registration is effected

In conclusion, there are no special rules regarding parallel registration compared with other countries.

### 5.3.4 Seaman registration

Follow Administrative Measures for the Registration of Seamen of China.

### 5.3.5 Special requirements and rules relating to registration

The forms of the Register of Ships, the Certificate of Ship's Nationality, the Provisional Certificate of Ship's Nationality, the Certificate of Registration of Ship's Ownership, the Certificate of Registration of Ship's Mortgage, the Certificate of Registration of Bareboat Charter, the applications and other certificates shall be solely formulated by the Maritime Safety Administration of China (China MSA).

### 5.4 General comments

The MSA is a government agency that coordinates maritime search and rescue in the territorial waters of the PRC. The MSA is part of the MOT. The MSA's major functions include:
Drafting and implementing guidance, policies, regulations and technological codes and standards in national water safety supervision, marine pollution prevention, facilities check, navigational aids and other relevant fields of transportation

Comprehensive supervision of water safety and prevention of marine pollution, inspection of the ship's safety conditions and safety management system of water transport enterprises

6. **Consulted resources**
   - MOT
   - Maritime Safety Administration of China
   - Policy on the Reforms and Improvements of Maritime Education in China (Zhaolin Wu, Dalian Maritime University, 2000)
   - 2008 China Maritime and Road Transportation Annual Report
   - Regulations of China Governing the Registration of Ships
   - Factiva
1. Tax

1.1 Tax facilities for shipping companies

1.1.1 General corporate tax rule

Resident companies are subject to tax on their worldwide income. A company is resident in Croatia if its legal seat or its place of management and supervision is located in Croatia. Branches of foreign companies (nonresident taxpayers) are subject to tax only on their profits derived from Croatia.

Capital gains and losses from the sale of assets are considered regular taxable income and tax-deductible expenses, respectively. No separate capital gains tax applies; capital gains are subject to the regular corporate income tax rate of 20%. Specific rules apply to unrealized gains and losses on certain types of assets. Depending on the type of asset, such gains or losses may not taxable or not tax deductible, and may be recognized for tax purposes in the period of the realization of the asset.

The corporate income tax base is determined in accordance with the accounting regulations, Croatian Financial Reporting Standards (CFRS) and International Financial Reporting Standards (IFRS), adjusted for certain items that increase or decrease the tax base.

Tax losses may be carried forward for five years, but they may not be carried back.

Croatia does not allow consolidated returns nor provides any other tax relief for groups of companies. Each company within a group is taxed separately.

Based on the Croatian Corporate Income Tax Act, tax credit for the foreign tax imposed on foreign-source income is allowed, but only up to the amount of the corporate income tax that would be payable on such profit in Croatia.

The general corporate tax rate is 20%, which is applied on profit (tax base) unless the Croatian tonnage tax system is opted for.

1.1.2 The Croatian tonnage tax system

According to the Croatian Maritime Code, legal entities established in Croatia and meeting certain requirements or those having their place of management in Croatia may opt to pay tonnage tax instead of the corporate income tax. Profits subject to tonnage taxation may be derived from the following maritime activities: (i) maritime activities performed with owned or rented ships; (ii) performance of ship management services; and (iii) sale of ships registered in the tonnage taxation system and related equipment, sale of shares in other ship entities, receipt of dividend from other ship entities, interest income, insurance contracts and foreign exchange hedging.

In order to apply the tonnage tax system, specific requirements should be met (e.g., all ships have to be strategically managed from Croatia, other European Union (EU) Member State or European Economic Area (EEA), and a minimum of 60% of total tonnage capacity has to be from ships from Croatia, other EU Member State or EEA). Shipping groups should apply the tonnage tax system to every vessel owned by their companies.

The tonnage tax is assessed and paid on a calendar-year basis. The prescribed tax liability is determined for every 100 net tonnage units, as follows:

<table>
<thead>
<tr>
<th>Net tonnage</th>
<th>Tax liability for every 100 net tons (HRK)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 1,000</td>
<td>270</td>
</tr>
<tr>
<td>1,001–10,000</td>
<td>230</td>
</tr>
<tr>
<td>10,001–25,000</td>
<td>150</td>
</tr>
</tbody>
</table>
For ship management activities, the above tax liabilities are assessed at 25%.

1.2 **Tax treaties**

Croatia has double tax treaties in place with the following countries: Albania, Armenia, Austria, Azerbaijan, Belarus, Belgium, Bulgaria, Bosnia and Herzegovina, Canada, Chile, China, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Hungary, Iceland, India, Indonesia, Iran, Ireland, Israel, Italy, Jordan, Korea (South), Kuwait, Latvia, Lithuania, Macedonia, Malaysia, Malta, Mauritius, Moldova, Montenegro, Morocco, Netherlands, Norway, Oman, Poland, Portugal, Qatar, Romania, Russian Federation, San Marino, Serbia, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland, Syria, Turkey, Turkmenistan, Ukraine and the United Kingdom.

1.3 **Freight tax**

There are no freight taxes levied in Croatia.

1.4 **Consumption tax (Croatian value-added tax)**

In Croatia, value-added tax (VAT) is imposed on supplied goods, rendered services, goods acquisition within the EU and imports. The standard VAT rate is 25%. Certain goods and services are levied with lower VAT rates (13% and 5%). Some supplies are exempt with the right of input VAT deduction, such as the export of goods and supply of goods within the EU. Some supplies are VAT-exempt but without input VAT deduction, such as financial transactions and activities performed in the public interest.

1.5 **Personal income tax for seafarers on international sailings**

Generally, Croatian tax residents are taxed in Croatia on worldwide income.

A specific tax regime applies to resident seafarers that are crew members on ships in international sailing. Such seafarers (and/or their Croatian employers) are not subject to advance tax payments in Croatia. The seafarers are obliged to file an annual tax return (by the end of February for the previous year). Enclosed with the annual tax return, they must prove the number of days spent on international sails. If the number of days exceeds 183 days in a calendar year, the seafarer is exempt from taxation in Croatia. Excess days in one calendar year can be carried forward into the following year. Resident seafarers that do not accumulate 183 days on international sails in a calendar year are taxable in Croatia at progressive rates of 12%, 25% and 40% (increases reflect a respective municipality surcharge).

2. **Social security**

2.1 **Health and pension insurance for seafarers on international sailings**

Generally, Croatian resident seafarers are subject to the Croatian health and social security system.

A special regime applies to seafarers that are crew members on ships in international sailing. Unless prescribed differently by totalization agreements and/or EU regulation (see below), they are subject to Croatian contributions on a limited basis. The basis is prescribed specifically for each calendar year and depends on the type of work the crew member performs.

2.2 **Social security treaties**

Since Croatia is an EU Member State, the provisions of the Council Regulation (EC) No. 883/2004 on the application of social security schemes apply.

Croatia has also entered into agreements on social security (totalization agreements) with the following non-
EU countries: Australia, Bosnia and Herzegovina, Montenegro, Canada, the Province of Quebec, Macedonia, Serbia, Switzerland and Turkey.

3. Human capital

3.1 Formalities and regulations for employing personnel
In general, the following conditions have to be met and standards have to be respected in order to hire personnel:

- Equal employment opportunities for men and women
- No discrimination based on age, race, ethnicity and religion
- Working hour limitation
- Annual leave allowance
- Minimal wage requirement

3.2 National labor law affecting seafarers
The Labour Act and Maritime Code apply to all crew members of registered ships in Croatia.

3.3 Labor union law
A collective agreement has been signed between the Croatian seafarers’ union and employers, i.e., major shipping companies that operate in Croatia. It regulates minimum wage and working conditions among other regulations.

3.4 Treaties relating to health and pension insurance
According to the Compulsory Health Insurance Act and Pension Insurance Act, every person employed in Croatia has the right to basic health and pension insurance.

4. Corporate structure

4.1 Most commonly used legal structures for shipping activities
A majority of shipping companies adopt the joint stock company (dioničko društvo, d.d.) as their legal structure. Another common legal structure is the limited liability company (društvo s ograničenom odgovornošću, d.o.o.).

4.2 Taxation of profit distribution
Dividends distributed by domestic taxpayers to nonresident shareholders are subject to a 12% withholding tax, unless a reduced rate or exemption is provided by the respective double tax treaty. Dividends distributed to qualified EU parent companies, subject to compliance with the requirements for the application of the Parent-Subsidiary Directive (implemented in the Croatian corporate income tax legislation), are exempt from the withholding tax.

Dividends received by Croatian taxpayers are not taxable, provided certain conditions are met.

5. Grants and incentives

5.1 Specific and/or general subsidies available to shipping companies
There are some subsidies available for shipping companies in Croatia. For instance, the Act on Regular and Occasional Coastal Maritime Transport Services regulates subsidies for shipping companies that perform public transport services.

5.2 Investment incentives for shipping companies and the shipbuilding industry
Under certain conditions, fuel used by ships is exempt from payment of excise duty.
There is also a possibility for shipping companies to educate additional crew members and to reduce the tax base for the amount of paid education. With a vision of educating prospective young professionals, Croatia provides scholarships for high school and university students.

5.3 Issues with flying the Croatian flag
Besides the advantages that come from Croatia being an EU Member State, flying the Croatian flag does not entail any specific advantages or disadvantages.

6. General information

6.1 Infrastructure

6.1.1 Major ports
Croatia has great economic potential, based on its convenient geographical location. Croatian ports’ main advantage is their location on the Adriatic Sea. Due to its location, Croatia connects Western Europe with Eastern Europe, as well as Asia and East Africa with Europe through the Suez Canal. There are five large ports in Croatia: Rijeka, Zadar, Šibenik, Split and Dubrovnik. Around 19 million tons of cargo and more than 12 million passengers are transferred every year through these ports. Croatia is a member of the following corridors: the Trans-European Transport Networks program (TEN-T), V Corridor and future Adriatic-Lonian route, which are crucial for Croatia's role in the European transportation and economic systems.

Major Croatian ports:
- Rijeka - specialized for cargo transport (containers, liquid cargo, dry cargo) and also provides services for passenger transport and ferry lines
- Zadar - qualified for ro-ro ships admission and passenger and liquid cargo transport
- Šibenik - specialized for passenger and cargo transport, especially bulk cargo
- Split - port is qualified for cargo and passenger transport, as well as ro-ro ships admission
- Dubrovnik - port specialized for cruise ships admission

6.1.2 Port facilities
The following support facilities are available in the abovementioned ports:
- Docking
- Shipyard (construction, maintenance and repair)
- Towing
- Freight services
- Control audit services

6.1.3 Airports close to the major ports
Four airports are based in the same cities as four major ports. Those cities are Rijeka, Zadar, Split and Dubrovnik.
- Rijeka Airport is based on the Island Krk, approximately 30km from the center of Rijeka and Rijeka Port.
- Zadar Airport is located 7km from Zadar Port.
- Split Airport is close to Split Port, approximately 25km from Split.
- Dubrovnik Airport is located in Čilipi near Dubrovnik, approximately 15.5km from Dubrovnik Port.

6.1.4 Maritime education
There are two levels of maritime education in Croatia. The first level is vocational at the high school level, primarily obtained at schools in Bakar, Split and Zadar (the most respectable programs) and in Dubrovnik, Šibenik, Korčula and Mali Lošinj (more generally oriented vocational schools).
The second level is at the university level and includes undergraduate and graduate programs for various maritime professions. The most prestigious programs are in universities in Rijeka, Split and Dubrovnik.

6.2 Safety and environmental issues

6.2.1 Implementation of the International Safety Management Code
The International Safety Management (ISM) Code is applicable for all vessels flying the Croatian flag. It is obligatory for all natural or legal persons who assume vessel managing liability from vessel owners to follow the ISM Code. Compliance with the ISM Code became mandatory with the adoption of SOLAS, Chapter IX, Management for the Safe Operation of Ships.

6.2.2 Special regulations on safety and the environment
Croatia is part of the following international special safety and environmental regulations:
- SOLAS (International Convention for the Safety of Life at Sea)
- MARPOL (International Convention for the Prevention of Pollution from Ships)
- COLREG (International Regulations for Preventing Collisions at Sea)

6.3 Registration

6.3.1 Registration requirements
In general, the Croatian Maritime Code allows registration of vessels that are entirely or partially owned by a Croatian or EU resident or an entity established in Croatia or the EU.

6.3.2 Parallel registration
In line with the provisions of the Croatian Maritime Code, a vessel already registered in another country cannot be registered in Croatia.
Curaçao

1. Tax

1.1 Profit tax regimes

Curaçao has six tax regimes for shipping companies:

1. Shipping companies taxed on the basis of tonnage
2. Shipping companies that are subject to the regular onshore profit tax regime
3. Onshore shipping companies that apply the so-called 80-20 regulation
4. Shipping companies with an offshore tax status
5. Transparent company
6. Rest category e.g., shipping companies applying the export facility or the E-zone facility

1.1.1 Shipping companies taxed on the basis of tonnage

Introduction

An interesting aspect of Curaçao’s tonnage tax facility is the very broad definition of qualifying ships. In principle, a Curaçao corporate taxpayer that holds “anything that floats or has floated” outside the territorial waters of Curaçao is eligible for application of the tonnage tax regime. Thus, specialized ships, such as survey, fishing, cable-laying and dredging ships, tugboats and (oil) rigs, all qualify for tonnage-based taxation in Curaçao. Furthermore, ships are admissible irrespective of the flag they fly.

The tonnage tax regime has been amended in 2015 allowing yachts and ships that are under construction to also qualify for application of the tonnage tax regime. Crewing or technical management of ships also qualifies for the tonnage tax regime.

Curaçao levies neither a capital tax on capital contributions nor a dividend withholding tax on dividend distributions.

Who can apply the tonnage tax regime?

All Curaçao companies or permanent establishments in Curaçao of nonresident companies that derive profits from using ships in international waters can apply the Curaçao tonnage tax regime on ships registered in the tonnage tax register.

The following shipping activities are admissible:

- Ownership or co-ownership of ships (including ships chartered out on a bareboat-charter basis)
- Bareboat chartering of ships
- Managing of ships on behalf of a third party (including crewing or technical management)
- Time or voyage chartering
- Activities related to the exploitation of ships

Calculation of the tonnage tax burden

The tonnage tax facility allows shipping companies to calculate their taxable profits on the basis of a specified fictional profit that depends on the net tonnage of the ship instead of the actual commercial profits. The annual fictional taxable profit per ship is calculated on the basis of the following sliding scale.

<table>
<thead>
<tr>
<th>Total net tonnage</th>
<th>Fixed taxable profit per net ton</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 10,000</td>
<td>ANG2 (US$1.12)1</td>
</tr>
<tr>
<td>10,001–25,000</td>
<td>ANG1.35 (US$0.75)</td>
</tr>
<tr>
<td>Over 25,000</td>
<td>ANG 0.6 (US$0.33)</td>
</tr>
</tbody>
</table>

1 A fixed currency exchange rate is prescribed by the Tax Authorities for the exchange of USD into ANG. In this case, ANG 1 = US$1.78. At the end of a calendar year, the average exchange rate to be used for the currency exchange of ANG into euros for the previous year is determined by the Tax Authorities.
If a company manages ships on behalf of third parties, the fixed taxable profit per net ton per ship should amount to 10% of the amounts above.

The resulting notional taxable profit should be taxed against the standard Curacao profit tax rate of 22%, with a minimum tax liability of ANG 1,500 (approximately US$843). If a management company applies the tonnage tax regime, the minimum tax liability should amount to ANG 750 (approximately US$422).

Example:

A ship with a net tonnage of 15,000 owned or chartered by a company will be taxed ANG 5,885 (= 22% × [10,000 × ANG 2 + 5,000 × ANG 1.35]). A Curacao management company of the same ship will in principle be taxed ANG 588.50 but rounded up to ANG 750 due to the minimum tax liability.

1.1.2 Shipping companies that are subject to the regular onshore profit tax regime

Shipping activities that are performed through a regular onshore company are subject to the regular profit tax regime. The taxable income is subject to a profit tax rate of 22%. Under this tax regime, shipping companies can apply the following tax incentives:

- Investment allowance: The investment allowance is an incentive that allows for a fictional tax deduction. With effect of 1 January 2015, the incentive of investment allowance was amended. Instead of an allowance of 8% in the year of investment and the following year, the allowance is increased to 10% but is limited only to the year of investment. For investments prior to 1 January 2015 the regulations as applicable up to 31 December 2014 remain in force.
- Deductible formation of provisions: The survey provision is permissible under conditions.
- Tax loss carryforward: Tax losses can be carried forward for 10 years.

1.1.3 Shipping companies that apply the so-called 80-20 regulation

Onshore shipping companies can elect to be taxed according to the 80-20 regulation. Under the 80-20 regulation, 80% of the income derived from outside Curacao is taxed against a 2.2% tax rate, and the remaining 20% is taxed against the regular rate of 22%. This leads to an effective tax rate of 6.16% on income derived from outside Curacao.

Please note that all other (non-shipping) profits realized in Curacao will be taxed against the regular profit tax rate of 22%.

Companies that apply the 80-20 regulation can also apply the tax incentives for onshore companies as described above. However, in addition to the regular tax loss carry-forward of 10 years, tax losses for the first 6 fiscal years of companies applying the 80-20 regulation can be carried forward indefinitely.

1.1.4 Shipping companies with an offshore tax status

Up to and including the year 2001, Curacao (then part of the Netherlands Antilles) had the so-called offshore tax regime. The regime was abolished in 2002. However, under the transitional rules of the new Profit Tax Ordinance, qualifying offshore companies in existence as per 31 January 2001 can continue applying the offshore tax regime through the year 2019.

Offshore companies are not engaged in business or transactions with residents of Curacao. These companies can obtain a tax ruling on the basis of which income is taxed at the profit tax rates of 2.4% to 3%, and capital gains on the shipping activities are tax-exempt.

1.1.6 Transparent company

A transparent company can be attractive internationally to hold financial or mobile assets, such as ships, aircrafts and machinery without taxation of profit in Curacao. For Curacao tax purposes, the transparent company could also be used for group tax consolidation for existing companies as an alternative to the so-called fiscal unity.

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2 This includes companies that provide manning services, i.e., providing ship crews to ships.
A Curaçao transparent company is a Curaçao (private) limited liability company that requests for Curaçao tax purposes to be treated as if it is a partnership while maintaining its legal characteristics. As a consequence of applying for tax transparency, the company will be disregarded for Curaçao tax purposes and all its income and assets are directly attributed to its partners (shareholders). The taxable basis for Curaçao tax purposes is therefore determined at the level of the partners, and in the absence of partners that are tax residents of Curaçao there should be a taxable basis in Curaçao if the activities of the transparent company constitute a permanent establishment in Curaçao.

1.1.7 Export and E-zone facilities
Besides the tax regimes that are applicable to the shipping companies as mentioned in the previous sections, two other tax facilities could be applicable to shipping activities, namely the export facility and the E-zone facility.

Export facility
Companies that obtain 90% or more of their profits with foreign activities, such as export of goods, maintenance and repair of goods for companies located outside Curaçao, the maintenance and repair of machines and other equipment located outside Curaçao, trading and e-commerce, and other services aimed at abroad, could, under certain conditions, apply for the export facility. In this case, an effective profit tax rate of approximately 3.2% could be applicable to the profit of the company.

E-zone facility
E-commerce companies and trading companies with an e-strategy that locate their activities in Curaçao and provide services to companies or individuals located outside Curaçao could, under certain conditions, apply for the E-zone facility. The profit tax rate of 2% should be applicable to the profits realized outside Curaçao.

1.2 Social security contributions and income/wage tax for seafarers
The social security contributions and income/wage tax consequences for seafarers depend among other factors on the place of residency of the seafarers. The place of residency is determined based on the underlying facts and circumstances. For example, if a ship has Curaçao as its home port and sails under the Curaçao flag, it is relevant to determine the place of the residency of the seafarers of that ship.

- For nonresident seafarers who exercise shipping activities solely outside Curaçao, no social security contributions and income/wage tax should be due in Curaçao.
- The income of nonresident seafarers who exercise shipping activities within Curaçao, could be subject to social security contributions and income/wage tax in Curaçao, depending on the specific circumstances. Also, an exemption may apply.

If the seafarers are residents of Curaçao and exercise shipping activities in Curaçao, their income from the shipping activities (and their worldwide income from other taxable sources) should in principle be subject to social security contributions and income/wage tax in Curaçao.

2. Human capital

2.1 Formalities for hiring personnel
In principle, for ships flying the flag of the Dutch Kingdom, shipping labor law requires a Dutch captain. However, exemptions from the requirement to employ a Dutch captain are common practice. For other personnel, no nationality requirements apply. Each employee on a Curaçao ship requires a seafarer's book and an endorsement of recognition that must be obtained from the authorities. In addition, a non-Dutch captain requires a dispensation.

2.2 Regulations on employing personnel
Under the Shipping Act, each ship flying the flag of the Dutch Kingdom needs to have a manning certificate (safe manning certificate) issued by the chief of the Navigation Inspection. This manning certificate specifies
the minimum number of crew members and their duties on board the ship (besides the captain and the shipowner).

The manager of the ship has to file an application for a manning certificate with the chief of the Navigation Inspection for each ship. A crew policy for the specific ship has to be enclosed with the application. This crew policy is a proposal by the ship manager and consists of the desired minimum number of crew members (besides the captain) with their specific duties. If, in the opinion of the chief of the Navigation Inspection, the above-mentioned proposal does not fully meet the required conditions, the chief has the authority to form a crew on board the ship.

A ship has to be manned according to the manning certificate. Exemptions are granted under some conditions.

2.3 Collective labor agreements
There is no obligation to have a collective labor agreement.

2.4 Manning issues of registering a ship in Curaçao
As mentioned in section 1.2, the registering of a ship in Curaçao, i.e., a ship that has Curaçao as its home port and that sails under the Curaçao flag, is relevant to determine the place of residency of the seafarers of that ship.

For determining such place of residency of the seafarers, a ship that has Curaçao as its home port and sails under the Curaçao flag is considered to be part of Curaçao.

3. Corporate structure

3.1 Legal structure for shipping activities
Most companies operate as a public limited liability company or Naamloze Vennootschap (NV). The liability of the shareholders of a NV is limited to their interest in the share capital of the NV.

3.2 Taxation of profit distribution
Profit distributions by Curaçao companies are not subject to withholding tax.

4. Grants and incentives
No subsidies are available.

5. General information

5.1 Infrastructure

5.1.1 Major ports
The major port in Curaçao is in Willemstad.

After Rotterdam, Willemstad ranks as the second largest port of the Dutch Kingdom. Moreover, Curaçao has three very deep ports where ships of any size and depth can moor.

5.1.2 Port facilities
The following facilities are available: storage, maintenance and repair, docking (sheltered deep-sea bays), and cranes for every size of ship.

5.1.3 Support services for the shipping industry
The following support services for the shipping industry are readily available:
> Ship management firms
Brokerage firms
- Haul cleaning and dry dock
- Consulting firms specializing in shipping
- Maritime law services
- Insurance brokers for the shipping industry

The foreign classification bureau, Lloyd's Register, also has a representative in Curaçao.

Although Curaçao banks do not have specialized shipping desks, the Curaçao branches of well-established international banks are equipped to deal with shipping companies.

5.1.4 Maritime education

In Curaçao, the Dutch Caribbean Training Center offers maritime safety training and port and shipping education.

5.2 Safety and environmental issues

5.2.1 Implementation of the International Safety Management Code

All shipping companies have implemented the International Safety Management (ISM) Code on board their ships. A large number of shipping companies and ship management companies are also certified in accordance with International Organization for Standardization (ISO) 9000 standards.

5.2.2 International Ship and Port Security Code

The International Ship and Port Security (ISPS) Code, which contains measures adopted by the International Maritime Organization (IMO) relating to the security of ships and port facilities, is mandatory for all ships as of 1 July 2004. As of this date, every ship must have the International Ship Security Certificate (ISSC). A security certificate is valid for five years, and endorsement has to take place between the second and third years.

5.3 Registration

5.3.1 Registration requirements

Ships registered in Curaçao fly the Dutch flag (a horizontal tricolor of red, white and blue) but are subject to the jurisdiction of Curaçao. The Netherlands is an internationally well-respected seagoing nation regarded by the industry as having high safety standards.

Furthermore, the ship must have a gross tonnage (GT) of at least 20GT, and the ship must obtain Curaçao nationality.

To obtain Curaçao nationality, the ship must be owned by a person or limited liability company with the nationality of one of the European Union (EU) Member States or that of Curaçao. The owner of the ship must have a representative in Curaçao who is authorized to represent the ship, the crew and the cargo. The shares of a Curaçao limited liability company may be held by foreigners of any nationality provided that the acting managing director is of Dutch (or another EU) nationality.

5.3.2 Ship registration procedure

The registration of oceangoing ships requires the owner to present:
- A document evidencing ownership (for instance, a bill of sale)
- A declaration that the ship is a Curaçao ship (the nationality declaration)
- An international tonnage certificate
- A certificate of deletion from the former register, if any
- Other requirements, such as articles of association

If all the required documents are available and presented correctly by the shipowner, the registration in the Register of Shipowners can be completed within a few days.
5.3.3 Parallel registration
Curaçao law provides both for bareboat in and bareboat out registration.
Cyprus

1. Tax

1.1 Tax facilities for shipping companies

The tonnage tax regime of Cyprus is available to any owner, charterer or ship manager who owns, charters or manages a qualifying vessel in a qualifying shipping activity. The tonnage tax is calculated on the net tonnage of the vessel according to the range of bands and rates prescribed in the legislation.

A qualifying vessel is any seagoing vessel certified under applicable international rules and regulations and registered in the ship registry of any member of the International Maritime Organization and the International Labour Organization, which is recognized by Cyprus. Qualifying shipping activity is any commercial activity that constitutes maritime transport, crew management or technical management.

Shipowners

The owner of Cyprus-registered qualifying vessels automatically falls within the scope of the tonnage tax system. Cyprus tax-resident companies that own qualifying vessels registered in the European Union (EU) or European Economic Area (EEA) may opt to be taxed under the tonnage tax system. Cyprus tax-resident companies that own a fleet of both EU- and non-EU-registered vessels must comply with certain requirements to qualify for the option to be taxed under the tonnage tax system.

Charterers

Any legal person who charters a qualifying ship under bareboat, demise, time or voyage charter, and more specifically, whose main and essential activity is the operation of chartered vessels owned by third parties for the purpose of conducting maritime transport, is eligible to opt for the tonnage tax system, provided certain requirements are met.

Ship managers

A ship manager who provides crew and/or technical ship management services is eligible to opt for the tonnage tax system, provided it satisfies certain criteria.

Option to remain in the tonnage tax system

Any shipowner, charterer or ship manager opting for the tonnage tax system must remain in the system for 10 years.

Taxation

Shipowners, charterers and ship managers who come under the tonnage tax system are exempt from Cypriot (corporate) income tax and other taxes on their profits from a qualified shipping activity (including interest earned on funds used as working capital), on dividends paid directly or indirectly out of such profits, and on gains from the sale of shares in a company that is a qualifying owner of a qualifying ship or from the sale of a qualifying ship.

Tonnage tax rates

For every additional 100 units:

<table>
<thead>
<tr>
<th>Tonnage tax rates</th>
<th>€</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-1,000 units of net tonnage</td>
<td>36.50</td>
</tr>
<tr>
<td>10,001-10,000 units of net tonnage</td>
<td>31.03</td>
</tr>
<tr>
<td>10,001-25,000 units of net tonnage</td>
<td>20.08</td>
</tr>
<tr>
<td>25,001-40,000 units of net tonnage</td>
<td>12.78</td>
</tr>
<tr>
<td>&gt;40,000 units of net tonnage</td>
<td>7.30</td>
</tr>
</tbody>
</table>
The rates of tonnage tax for ship managers are 25% of the above rates.

1.2 **Tax facilities for seafarers**
Wages of seafarers of Cyprus flagged ships are exempt from tax in Cyprus.

1.3 **Tax treaties and place of effective management**
Cyprus has tax treaties with the following countries:
Armenia, Austria, Azerbaijan*, Belarus, Belgium, Bosnia and Herzegovina**, Bulgaria, Canada, China, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Georgia, Germany, Greece, Guernsey, Hungary, Iceland, India, Ireland, Italy, Kuwait, Kyrgyzstan*, Lebanon, Lithuania, FYR Macedonia***, Malta, Mauritius, Moldova, Montenegro**, Norway, Poland, Portugal, Qatar, Romania, Russian Federation, San Marino, Serbia**, Seychelles, Singapore, Slovak Republic****, Slovenia, South Africa, Spain, Sweden, Syria, Switzerland, Tajikistan*, Thailand, Turkmenistan*, Ukraine, United Arab Emirates, United Kingdom, United States and Uzbekistan*.

*A The old treaty between Cyprus and the USSR applies. (Cyprus continues to apply the USSR treaty in relations with these countries. In practice, these countries do not apply the former USSR conventions apart from Turkmenistan, which generally applies former USSR treaties).

**The old treaty between Cyprus and Yugoslavia applies. (Cyprus does not apply this treaty with respect to Bosnia and Herzegovina. In practice, Bosnia and Herzegovina generally continue to apply the former conventions.)

***The position regarding the applicability of the former Yugoslavia treaty remains unclear: Cyprus does not apply this treaty with respect to FYR Macedonia. In practice, FYR Macedonia generally continues to apply the former conventions.

****The old treaty between Cyprus and the Czechoslovak Socialist Republic applies.

A number of tax treaties provide for the place of effective management of the shipping company to benefit under the treaty.
Cyprus has also signed a number of bilateral agreements on merchant shipping.

1.4 **Freight taxes**
Cyprus does not levy any freight taxes.

1.5 **Special vessel registration tax benefits for the shipowner**
There are no tax registration benefits.

1.6 **Changes to tax law anticipated in the near future**
The tonnage tax system of Cyprus was significantly amended in 2010. No major changes are expected in legislation in the near future.

1.7 **Yacht scheme**
In an effort to encourage the use of Cyprus as a host jurisdiction for yachts for private use, the government has introduced a “yacht leasing regime.”
The main characteristics are:

• The combined effective value-added tax (VAT) and income tax rate is approximately 4.8%.
• The lessor must be a Cypriot-registered company; the lessee may be any individual or legal person regardless of his or her residence.
• VAT and income tax advanced rulings are required.

2. **Human capital**

2.1 **Formalities for hiring personnel**
All employees must hold a valid and recognized certificate of competence for the post they hold on board.
2.2 National labor law
The manning of Cypriot ships is regulated by law and regulations enacted in Cyprus. Cyprus has also adopted and ratified the Maritime Labour Convention, 2006.

The master of a Cypriot ship is required to enter into an employment agreement with the shipowner, and every seafarer on board must enter into an agreement with the master. Such agreements may make reference to the Cyprus Collective Agreement.

2.3 Collective labor agreements
There is no obligation to apply any collective labor agreement. However, the shipowners’ associations have concluded collective labor agreements with the Cyprus Workers’ Confederation, which is affiliated with the International Transport Workers’ Federation (ITF).

2.4 Treaties relating to social security contributions
Cyprus has concluded bilateral agreements with Austria, Australia, Bulgaria, Canada, Czech Republic, Egypt, Greece, the Netherlands, Quebec, Romania, Serbia, Slovakia, Switzerland, Syria and the United Kingdom.

The bilateral agreements concluded with the EU Member States have been replaced by Regulation 883/2004 for the coordination of social security systems.

2.5 Manning issues with flying the Cypriot flag
As Cypriot seafarers are not available in large numbers to man vessels, the authorities allow vessels flying the Cyprus flag to be manned by seafarers from many other countries who hold a competence certificate recognized by Cyprus.

3. Corporate structure

3.1 Most commonly used legal structure for shipping activities
The most commonly used structure for shipping activities is a limited liability company.

3.2 Taxation of profit distribution
There is no taxation of profit distribution to the shareholders of companies applying Cyprus tonnage tax regime.

As a general rule, Cyprus does not levy any withholding taxes on payments of dividends to non-Cyprus tax resident shareholders. As of 16 July 2015, no (withholding) Defence Tax is levied on dividend payments made to individuals who are not considered to be domiciled in Cyprus (as this is defined for Defence Tax purposes) even if such individuals are considered to be residents for income tax purposes of Cyprus.

4. Grants and incentives

4.1 Specific and/or general subsidies available to shipping companies
Cyprus does not have any subsidies for shipping companies.

4.2 Investment incentives for shipping companies and the shipbuilding industry
There are no investment incentives other than tax incentives.

4.3 Special incentives for environmental awareness
There are no special incentives for environmental awareness.

4.4 Issues with flying the Cypriot flag
There are no issues regarding subsidies and grants connected with flying the Cypriot flag.
4.5 Major changes in shipping subsidy legislation anticipated in the near future
No major changes are expected in the legislation regarding subsidies for shipping in the near future.

5. General information

5.1 Infrastructure

5.1.1 Major ports
The major ports are:
- Larnaca
- Limassol

5.1.2 Port facilities
The following facilities are available:
- Storage; cranes for every size of vessel

5.1.3 Support services for the shipping industry
The following support services for the shipping industry are readily available:
- Department of Merchant Shipping
- Cyprus Shipping Chamber
- Cyprus Shipping Association
- Banks with a shipping desk
- Consulting firms specializing in shipping
- Maritime law services
- Insurance brokers for the shipping industry
- Ship management companies

5.1.4 Maritime education
Maritime education is provided by the Hanseatic Marine School (Limassol) and the Cyprus Technical University (Limassol).

5.2 Safety and environmental issues

5.2.1 Implementation of the International Safety Management Code on board vessels
All shipping companies have implemented the International Safety Management (ISM) Code on board their vessels. A large number of shipping companies and all ship management companies also have International Organization for Standardization (ISO) 9000 certification.

5.2.2 Safety rules regarding manning
Cyprus does not have a lengthy and comprehensive body of safety regulations regarding manning.

5.2.3 Special regulations on safety and the environment
Cyprus is party to all international conventions on safety and the environment. The Cyprus government strongly supports the Cyprus Marine Environment Protection Association (CYMEPA), which actively promotes clean seas.

5.3 Registration

5.3.1 Registration requirements
Vessels of any size and type may be registered in the Cyprus Register of Ships or the Special Book of Parallel Registration as long as they comply with the provisions contained in the merchant shipping legislation and the circulars of Department of Merchant Shipping.
A vessel may be registered under the Cypriot flag if it meets one of the following criteria

- More than 50% of the shares of the ship are owned by (i) Cypriot citizens or (ii) citizens of other EU/EEA Member States (who have appointed an authorized representative in Cyprus).
- The shares of the ship are 100% owned by (i) a company incorporated in Cyprus or (ii) a company incorporated in another EU or EEA Member State (which has appointed an authorized representative in Cyprus or the management of the ship is entrusted to a Cypriot or EU/EEA ship management company having its place of business in Cyprus) or (iii) by a company established outside Cyprus or the EU/EEA controlled by citizens of Cyprus or citizens of EU/EEA Member States (which have appointed an authorized representative in Cyprus or the management of the ship is entrusted to a Cypriot or EU ship management company having its place of business in Cyprus).

5.3.2 Ship registration procedure
The vessel can have a provisional registration followed by a permanent registration. To effect the provisional registration, certain information and documentation must be provided, including details of the ship and the classification society, as well as documentation concerning the incorporation of the company, its directors and shareholders. The maximum period for provisional registration is nine months, with the possibility of a three-month extension. At the time of provisional registration, the vessel must be at a port so that it can be surveyed and certified on behalf of the Cyprus government. The provisional registration can be effected at Limassol or at any diplomatic mission or consular post of Cyprus.

Permanent registration can be effected by providing certain certificates concerning the vessel and paying the appropriate fees.

5.3.3 Parallel registration
Parallel registration (bareboat) is allowed under Cypriot law, provided that the other country allows parallel registration. Certain requirements must be fulfilled, and specified documentation must be provided.

5.3.4 Requirements for the officers and crew serving on vessels
Safe manning requirements for vessels depend on the gross tonnage of the vessel. Officers and crew must hold a certificate of competence for the post they hold, which may be issued by one of the countries recognized by Cyprus.

5.3.5 International conventions
Cyprus is a contracting party to all international conventions set up by the International Maritime Organization and a number of International Maritime Labor Conventions.

5.3.6 Mortgages
Mortgages on vessels under the Cypriot flag must be registered with the Registrar of Cyprus Ships, and in the case of a vessel belonging to a Cypriot company, must also be registered with the Registrar of Companies. Fees for the registration of a mortgage are €3.4 cents on every ton up to 10,000 gross tonnage and at the rate of €1.7 cents on every ton in excess of 10,000 gross tonnage.

Agreements related to the sale and purchase of vessels (or shares of vessels), including loan agreement and documents relating to a pledge, guarantee or mortgage on a vessel registered on the Register of Cyprus Ships are exempt from Cypriot stamp duty.
Denmark

1. Tax

1.1 Tax facilities for shipping companies

Companies operating as shipping companies are, basically, taxed according to the general rules as they apply to Danish companies. Under certain circumstances, shipping companies can elect taxation under the special tonnage tax regime.

1.1.1 Ordinary corporate income tax

Danish registered companies and foreign companies with their effective place of management in Denmark are liable to Danish corporate taxation.

The Danish corporate tax system is based on the territoriality principle, and income from a foreign permanent establishment and foreign real property is therefore exempt from Danish tax liability. However, it is possible to opt for international joint taxation. In that case, income from all foreign-affiliated companies is included in the Danish joint taxation, which comprises all subsidiaries, permanent establishments and foreign real property owned by the Danish company and, if relevant, a foreign parent company and other foreign-affiliated companies.

Joint taxation of all Danish-affiliated companies, permanent establishments in Denmark and Danish real property is compulsory (territorial joint taxation).

A company taxed according to the general rules must calculate its annual taxable income based on the company's profits and losses.

Tangible and intangible fixed assets can (with certain exceptions, such as office buildings) be depreciated for tax purposes. Operating equipment and ships are depreciated according to the declining-balance method.

The current depreciation rate for operating equipment is 25% maximum. For ships with a gross tonnage of at least 20 tons that are used for commercial transportation, it is 12% maximum. Buildings can be depreciated using the straight-line method by 4% annually of the acquisition cost.

The taxable income is taxed at a rate of 22% in 2016.

1.1.2 Transfer pricing

Conditions

Danish law adopts the arm's length principle as defined in the Organisation for Economic Co-operation and Development (OECD) Model Tax Convention under Article 9 on Associated Enterprises. Consequently, a company operating in Denmark that has transactions with companies having shared ownership or control may be subject to the Danish transfer pricing regulations. The current regulations require assessment and documentation of the arm's length price of such transactions ("controlled transactions") for Danish companies generally. However, Danish companies being part of a group which on a consolidated basis has 1) less than 250 employees and 2) either an annual balance sheet total of less than DKK125 million or annual revenues of less than DKK250 million must only prepare and maintain written transfer pricing documentation if controlled transactions exceed DKK5 million in the aggregate.

The documentation requirements are revised for fiscal years starting on or after 1 January 2016 to match the OECD's BEPS project recommendations on Master files, Local files, and Country by Country Reporting (CbCR). The CbCR requirements apply to groups with consolidated turnover of more than DKK5.6 billion and require significant disclosures from the entire group. The prior documentation requirements date from 2006 and are broadly consistent with international disclosure standards. The period for which the tax authority can request documentation is five years.

Administrative requirement

The taxpayer must prepare and keep written documentation of the prices and terms set for controlled
transactions in the manner specified for the year in question (see above). This written documentation must
be submitted at request of the tax authority within 60 days and must provide a suitable basis for assessing
whether the transaction was conducted at arm’s length.

**Penalties**

Failure to produce transfer pricing documentation within the 60 day period may incur a penalty of
DKK250,000 per fiscal year requested, where documentation is either inadequate or not provided. In
addition in case the transfer pricing audit leads to an upward arm’s length adjustment a penalty of 10% of
the increase will be imposed. Imposing penalties requires proof of intent or gross negligence. Any penalties
imposed are nondeductible for Danish income tax purposes.

1.1.3 **Tonnage taxation**

A company operating as a shipping company can – as an alternative to the above ordinary corporate
income taxation – elect to be taxed under the Danish tonnage tax regime. The election is binding for a
10-year period.

The election has to be made at the latest when filing the corporate tax return for the first year for which the
company fulfilled the conditions for tonnage taxation in the law. If no election has been made at that point in
time, the company cannot opt for tonnage taxation for a period of 10 years.

After elapse of the first 10-year period, a new election can be made for another 10-year period.

If the tonnage tax system is elected, the tonnage tax rules automatically apply to all ships and other assets
connected with, or conducive to, the shipping activity of the company. The election regarding tonnage
taxation applies to all affiliated companies meeting the requirements.

**Conditions: operation of the vessels**

It is a requirement for tonnage taxation that the ships have a gross tonnage of at least 20 gross register tons
(GRT) and that they are strategically and commercially operated from Denmark.

Whether or not the vessels are considered as operated from Denmark depends on an evaluation of the
specific facts. The Danish tax authorities have not issued specific guidelines regarding interpretation of the
concept of “operation of the vessels,” but a number of binding rulings provide guidance. Very generally
speaking, it should be possible to qualify for tonnage taxation even in case that a number of functions
involved in operation of the vessels are performed abroad, as long as the majority of the functions involved
in the operation are performed in Denmark. However, the determination is – as mentioned above – based on
the facts and circumstances in each individual case.

**Conditions: flagging**

Denmark has implemented the European Union (EU) or European Economic Area (EEA) flag
requirements. Under these rules, the shipping company must retain or increase the percentage of
the gross tonnage (only vessels owned by the shipping company) registered in an EU or EEA country
(average over the income year).

However, this flagging condition does not apply if the percentage of the owned gross tonnage registered in an
EU or EEA country of all shipping companies that qualify for taxation under the Danish tonnage tax system
has not declined (average over the income year). Furthermore, the flagging condition does not apply if
the percentage of the owned gross tonnage that qualifies for taxation under the Danish tonnage tax regime
registered in an EU or EEA country amounts to at least 60% (average over the income year) of the total
gross tonnage of the shipping company in question.

For affiliated shipping companies, the flagging condition applies to all of the group companies as a whole.
If the above flag requirement is not met, the income from the exceeding owned gross tonnage will be taxed
under normal corporate income tax rules.

**Taxation under the tonnage tax regime**
Income from commercial transportation of passengers and goods is eligible for tonnage taxation. The requirement “commercial transportation of passengers and goods” means that only income from transportation of passengers or cargo between different destinations can be taxed under the tonnage tax regime. “Different destinations” is generally defined as either two different destinations onshore (typically harbors) or a destination onshore and a fixed offshore installation. Activities of certain types of an auxiliary nature hereto may also be subject to tonnage tax.

The existing rules have excluded a number of activities from the tonnage tax regime, for instance, activities that do not consist of transportation, activities performed at sea but not linked to any fixed installations, or activities solely performed between different installations at sea. From 2016, the Danish tonnage tax regime has been expanded to also apply to the following activities, even in cases where the activities do not involve transportation of passengers or cargo between different destinations:

- Watchkeeping
- Support and service functions
- Building, repairing and dismantling oil installations, wind farms or other offshore installations at sea; however, building, reparation and dismantling of oil installations only to the extent that the activity is pursued outside the Danish territorial sea and continental shelf
- Closure, inspection and repair of pipelines or cables on the seabed, and trenching carried out in the connection with this
- Ice handling
- Housing of staff, spare parts and workshop facilities with connection to offshore work

The above expansions are subject to approval from the EU Commission. Approval is presently pending.

The taxable income under the tonnage tax regime is not computed based on the profits and losses of the company. Instead, the taxable income is determined for each vessel at the following basic amount per 100 net tons per day, irrespective of whether the vessel is in traffic or not:

<table>
<thead>
<tr>
<th>Total net tonnage</th>
<th>Income per day per 100 tons in DKK (approximates in €)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 1,000</td>
<td>DKK9.40 (€1.3)</td>
</tr>
<tr>
<td>1,001-10,000</td>
<td>DKK6.75 (€0.9)</td>
</tr>
<tr>
<td>10,001-25,000</td>
<td>DKK4.04 (€0.5)</td>
</tr>
<tr>
<td>Above 25,000</td>
<td>DKK2.65 (€0.4)</td>
</tr>
</tbody>
</table>

(Rates applicable in 2016)

It is not possible to deduct expenses or depreciate (for tax purposes) ships and operating equipment subject to tonnage taxation.

Capital gains realized at the disposal of vessels under tonnage tax are generally exempt from tax. However, gains on vessels owned by the shipping company at 31 December 2006 and taxed under the tonnage tax regime are taxed under the general tax rules.

A credit is available for foreign freight tax under certain conditions.

Ships owned by the shipping company but chartered out on a time-charter basis can only be included in the tonnage taxation scheme if the lessee utilizes the ship for a qualified purpose, i.e., a shipping purpose qualified under the tonnage taxation system.

Ships owned by the shipping company but chartered out on a bareboat-charter basis can only be included if the reason for leasing the vessel is temporary excess capacity and if the terms of the lease do not exceed three years. This exemption can only be used one time for each vessel.
Net financial income is taxed under the ordinary tax rules. Net financial expenses are deductible under the ordinary tax rules but subject to restrictions on tax deductibility. For shipping companies, the restrictions on tax deductibility typically mean that only a very minor part of the net financial expenses will be deductible.

Restrictions on chartered vessels

Vessels hired on a bareboat charter are regarded as owned ships for tonnage tax purposes. This also applies to vessels hired on a time charter provided that the charter is concluded for a period of at least one year and not more than seven years, and the lessee is granted a call option to acquire the vessel at the fair market value at the time of the call option.

Moreover, if the gross tonnage available from hired vessels not qualifying as owned ships exceeds the gross tonnage from owned ships by four times, the excess tonnage is taxed under ordinary corporate tax law.

Entering the tonnage tax regime – deferred tax

If a company has conducted shipping activities prior to entering the tonnage tax regime, deferred tax on vessels and machinery and equipment is subject to special rules.

When switching from ordinary taxation to tonnage taxation, the taxable balance of vessels and machinery and equipment that enters into tonnage taxation must be calculated. This tax base is added to certain balances (the transitional balances). Subsequent acquisitions of ships, among other things, concerning tonnage activity are added to other balances (settlement balances). Both the transitional balances and the settlement balances are reduced by 12% per year, without, however, any amounts being deductible for tax purposes (the reduction percentage equals the maximum depreciation rate if the tonnage taxation is opted out of). On the sale of a ship, the sales price is deducted from the balance to which the vessel relates. Negative balances are, in principle, subject to tax, but can be settled by new acquisitions or a positive balance on the other balance.

Shipping management companies

Shipping management companies may choose to benefit from the Danish tonnage tax regime. They are defined as companies that solely conduct technical and/or crew management regarding ships. Both Danish shipping management companies and shipping management companies resident in other EU Member States with a permanent establishment in Denmark may qualify for inclusion in the Danish tonnage tax regime. It is a condition of qualification that the shipping management company has undertaken complete responsibility regarding the operations of the vessel and all liabilities according to the International Safety Management (ISM) Code. Furthermore, the general conditions (the EU or EEA registration requirement, minimum size of vessels, strategic and commercial management from within an EU Member State) that must be satisfied by shipping companies in order to qualify for Danish tonnage tax also apply to shipping management companies.

Tonnage income and ordinary income, if any, make up the total taxable income of the company, which is taxed at the standard corporate tax rate of 22% (2016).

1.2 Tax facilities for seafarers

1.2.1 Resident seafarers

Resident seafarers who are employed on board Danish vessels are, in principle, taxed as Danish residents. However, seafarers on board Danish and foreign vessels outside inbound traffic are entitled to a special annual deduction of DKK56,900 (approximately €7,600). In certain cases, the annual deduction is increased to DKK105,000.

Additionally, resident seafarers who are employed on board Danish vessels registered in the Danish International Shipping Registry (Dansk International Skibsregister, or DIS) are exempt from Danish tax on income earned on board. Consequently, if seafarers only have income earned on board a vessel registered in the DIS, they are fully exempt from Danish income tax.

The tax exemption from Danish tax on income earned on board DIS-registered vessels does not apply to seafarers working on vessels that conduct activities that only qualify for tonnage taxation under the extensions of the scheme effective from 2016 (see above). As a consequence, seafarers on Danish vessels
registered in DIS are not exempted from paying income tax on the DIS salary when the income is related to, e.g., offshore wind activities, pipe and cable installment and watch-keeping.

1.2.2 Nonresident seafarers
Nonresident seafarers working on board Danish vessels outside inbound traffic are taxed at a flat rate of 35.6%, and certain social contributions are included. No deductions are allowed.
Nonresident seafarers who are employed on board vessels registered in the DIS are fully exempt from Danish tax if the vessels’ activities are related to commercial transportation of passengers and goods.

1.3 Tax treaties and place of effective management
Denmark has concluded more than 80 tax treaties. The majority of these are based on the OECD model treaty for the avoidance of double taxation.
Given that Article 8 of the OECD model treaty states that profits of a shipping company are taxable only in the state in which its place of effective management is situated, the place of effective management of a shipping company is crucial.
Furthermore, Denmark has concluded a number of double tax treaties, which are limited to profits derived from the operation of ships or aircraft in international traffic.

1.4 Freight taxes
There are no freight taxes in Denmark.

1.5 Special vessel registration benefits for the shipowner
Apart from §1.2.1 concerning the DIS and the tax exemption for crew members, registration of a vessel in Denmark will not entail any special corporate tax benefits for the shipowner.

1.6 Major tax law changes anticipated in 2016
No major change in Danish tax law in relation to shipping companies is anticipated in 2016.

1.7 Indirect tax
The supply and the leasing of seagoing vessels – not leisure boats – with a gross register tonnage of five tons or more are zero-rated for the purposes of value-added tax (VAT). Repair and maintenance services to these vessels and the goods used for the repairs and maintenance are also exempt from VAT.
Furthermore, the supply of goods (e.g., necessary equipment to be used on board) and services to outbound seagoing vessels are, in most cases, zero-rated. Services related to the cargo transported by these outbound seagoing vessels (e.g., loading and unloading) are also zero-rated in most cases.
Zero rating also applies to the transport of goods to or from the EU.
Transport within the EU supplied to a business established in a Member State other than the supplier is subject to reverse charge.
VAT exemption applies to passenger transport carried out with seagoing vessels. However, for inbound ferry services, only the passenger transport itself is exempt from VAT. The accompanying means of transport is considered transport of goods subject to VAT.

1.7.1 Recovery of Danish VAT incurred on costs
In principle, foreign businesses can recover Danish VAT incurred on costs, but only to the extent that VAT can be deducted by businesses registered for VAT in Denmark.

2. Human capital

2.1 Formalities and regulations for employing personnel
The formalities and regulations that have to be met when applying for a job on board the vessel depend on
the nature of the job. In general, the following documents are required:

- A medical certificate
- A discharge book
- A contract of employment with a shipping company
- A contract of employment with a vessel

Certificates of competence

As a main rule, seafarers must have a certificate of competence issued by the Danish Maritime Authority, which provides holders opportunities for performing different jobs on board vessels, depending on their qualifications.

Foreign seafarers who wish to apply for a Danish flag state endorsement (recognition certificate) must contact a Danish shipping company or its representative in their own country.

An application to the Danish Maritime Authority for a recognition certificate will need to be endorsed by such a company indicating a promise of engagement on board the company's vessel.

When contacting the Danish shipping company or its representative, seafarers will need to present their certificates of competence in the original form and proof of identity (passport or seafarer's discharge book), along with proof of completed maritime education and training and seagoing service.

2.2 Collective labor law

Collective agreements between shipowner organizations and trade unions exist. The agreements cover such areas as days off, working hours, employment and termination, sick leave and maternity leave, and strike, lockout and blockade.

2.3 Treaties regarding social security contributions

According to EU Regulation 883/2004, the general rule is that a seafarer working aboard a vessel flying the flag of an EU country should be insured in that country. Additionally, Denmark has entered into bilateral social security agreements with countries outside the EU, and most of these agreements include clauses on seafarers.

2.4 Manning issues with flying the Danish flag

Denmark has strict safety requirements for crewing. Additionally, as mentioned under section 1.2, vessels flying the Danish flag may have the possibility of being registered with the DIS, which implies lower salary costs due to the special tax rules for the seafarers on board these vessels.

3. Corporate structure

3.1 Most commonly used legal structures for shipping activities

The most commonly used legal structures for shipping companies are the public limited liability company (Aktieselskab [A/S]) or the private limited liability company (Anpartsselskab [ApS]). Limited liability companies are subject to corporate income tax at a rate of 23.5%.

Limited liability companies engaged in shipping activities may apply for taxation according to the tonnage tax regime. (See section 1.1.2.)

Partnerships and limited liability partnerships (pools) are also common legal structures for shipping activities. Such partnerships are transparent for Danish tax purposes. Instead, the partners are taxed proportionally.

3.2 Taxation of profit distribution

As a starting point, dividends are subject to withholding tax at a rate of 27% (2015). The rate is proposed to be reduced to 22% (2016), but the new tax bill is not yet passed in the Danish Parliament.
However, the withholding tax rate may be reduced under domestic law and for dividends paid to nonresidents according to tax treaties.

As a starting point, no withholding tax is imposed on dividends paid to foreign companies that are beneficial owner of such dividends if either of the following requirements is satisfied:

- The shares in the Danish company qualify as subsidiary shares (i.e., company resident in EU/EEA or double tax treaty country owning directly at least 10% of the share capital of the Danish company): no withholding tax is imposed if the withholding tax is reduced according to the EU Parent-Subsidiary Directive (2011/96/EU) or a double tax treaty.
- When the shares in the Danish company do not qualify as subsidiary shares: no withholding tax is imposed if the foreign company is resident in the EU/EEA and the shares qualify as group shares (i.e., direct or indirect control of more than 50% of the voting rights or control by other means) and provided that the withholding tax should have been reduced if the shares had fulfilled the conditions for being subsidiary shares.

However, dividend distributions carried out on or after 1 January 2013 will be subject to withholding tax if the dividend is distributed from a Danish subsidiary to a foreign company and the distribution is deemed a redistribution of dividends, which the Danish company has itself received from a more than 10%-owned company in another foreign jurisdiction and the Danish company cannot be considered the beneficial owner of the dividend received.

4. Grants and incentives

4.1 Investment incentives for shipping companies and the shipbuilding industry

No tax incentives are available.

5. General information

5.1 Infrastructure

5.1.1 Major ports

The major ports are:
- Aarhus
- Copenhagen
- Esbjerg
- Fredericia
- Kalundborg

5.1.2 Port facilities

Most support facilities are available at these ports.

5.1.3 Support services for the shipping industry

All supporting facilities for the shipping industry are readily available in Denmark (e.g., banks with a shipping desk, consulting firms specializing in shipping, maritime law services).

5.1.4 Maritime education

The major maritime educational institutions are:
- Marstal Navigationsskole
- Maritime Training and Education Centre (MARTEC)
- Svendborg International Maritime Academy (SIMAC)
5.2 Safety and environmental issues

5.2.1 Implementation of the International Safety Management Code
The International Safety Management Code has been implemented for ships of 500 GRT or more.

5.2.2 Safety rules regarding manning
The safety rules regarding manning are strict.

5.3 Registration

5.3.1 Registration requirements
Two registration regimes exist for ships in Denmark.

Danish Ordinary Register of Shipping
Passenger ships in domestic shipping, fishing vessels and leisure boats of 20 GRT or more are registered with the Danish Ordinary Register of Shipping. The shipowner must be a Danish citizen or an EU or EEA citizen.

Danish International Register of Shipping (DIS)
Ships of 20 GRT or more may register with the DIS. However, the ships cannot be warships, fishing vessels, boulder dredgers or leisure boats. Ships registered with the DIS cannot transport passengers between Danish ports.

The following are eligible for registration with the DIS:
- Danish citizens, Danish partnerships and Danish companies
- EU or EEA citizens, EU or EEA partnerships and EU or EEA companies
- Foreign companies if:
  - Danish citizens or companies – pursuant to the merchant shipping act (søloven) – have a direct or indirect capital share in the foreign company of at least 20%
  - Danish citizens or companies have – through their direct or indirect capital share in the foreign company – a significant influence through voting rights or the like
  - The foreign company is engaged in shipping as a major activity

<table>
<thead>
<tr>
<th>Registration fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Builder’s certificate</td>
</tr>
<tr>
<td>Bill of sale</td>
</tr>
<tr>
<td>Bareboat charter</td>
</tr>
<tr>
<td>Mortgage</td>
</tr>
</tbody>
</table>

Annual fee
The fee is calculated on the basis of the ship's GRT.
- GT 20-500: DKK1,600
- GT above 500: DKK2,400

Other fees
Certificate of Nationality: no fee
Registration and deletion certificate, official transcripts: DKK175 each

Ships registered with the DIS are entitled to fly the Danish flag and shall be subject to Danish law.

See also section 1.2 for favorable tax treatment of seafarers employed on board vessels registered in DIS.

5.4 Links to relevant websites
- www.dma.dk (Danish Maritime Authority)
- www.shipowners.dk (Danish Shipowners’ Association)
Dominican Republic

1. Tax

1.1 Tax facilities for shipping companies

Corporate income tax

The tax rate is 27% on net income generated from a Dominican Republic (DR) source. However, nonresident entities and individuals should likewise be subject to DR income tax on their DR-sourced income. In such cases, the tax rate should be levied on a gross amount without allowing any deductions. Moreover, residents should be taxable for the income derived from financial investments and gains.

For foreign transportation entities carrying out services from the DR (i.e., shipping or aircraft), corporate income tax is determined based on presumed income. The Dominican Tax Code (DTC) establishes that DR-sourced income obtained by foreign transportation companies on operations carried out from the DR to other countries is equivalent to 10% of the total gross income received from fares for passengers and cargo.

Whereas Dominican transportation companies should also be subject to deemed source ruled when the exact net income cannot be assessed.

Deductible expenses

As a general rule, deductible expenses from the gross taxable income are allowed for resident legal entities when incurred with the sole purpose of maintaining and obtaining such income. Nevertheless, please bear in mind that nonresidents are taxed on their DR-sourced gross income without allowing any deduction.

Withholding taxes

All payments made to nonresident individuals and legal entities on income from DR sources are subject to a withholding tax at the corporate income tax rate of 27% on a gross amount.

However, as an exception to the foregoing rule, dividends and interest payments of DR source to nonresidents should be subject to a 10% withholding tax.

In accordance with the DTC, presumptions are made regarding the net income of certain entities (e.g., shipping companies), when net income cannot be determined. For foreign transportation entities whose operations are carried out from the DR to other countries, 10% of the total gross income received from tickets and cargo fares is presumed as its net income from a DR source; it is therefore subject to a 27% withholding tax, which is the equivalent of a 2.7% gross income tax.

Value-added tax

The applicable tax rate on the transfer of industrialized goods and services (ITBIS for the Spanish acronym) is 18%. Pursuant to the DTC, the ITBIS applies to:

- The transfer of industrialized goods
- The importation of industrialized goods
- The rendering of services

In general, air and maritime transportation services for individuals and merchandise within the DR territory are subject to ITBIS. In addition, air or maritime transportation services for individuals from the DR to abroad or vice versa, are subject to ITBIS if the tickets are acquired in the DR or if the tickets are acquired abroad and the service initiates in the DR.

Notwithstanding the above, pursuant to Section 14 of the ITBIS Regulation (Decree 293-11), ground transportation services for individuals and cargo within the DR territory and freight, air or maritime transportation of goods from the DR to abroad are ITBIS-exempt.

Excise tax
Shipping services are exempt from excise tax.

### 1.2 Tax facilities for seafarers

According to Section 287 of the DTC, resident legal entities are allowed to deduct the wages paid to seafarers for income tax purposes as long as they are necessary for keeping or maintaining the income generated. There are no other tax facilities for seafarers in the DR.

### 1.3 Tax treaties and place of effective management

Currently the DR has executed two tax treaties. On 6 August 1976, the DR and Canada signed a tax treaty to avoid double taxation and prevent tax evasion with respect to taxes on income and on capital (DR-Canada Treaty), which entered into force on 1 January 1977. Later on, the DR and Spain signed the Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and on capital, together with its protocol (DR-Spain Treaty), which entered into force on 25 July 2015.

**DR-Canada Treaty:**

According to Articles X, XI and XII of the DR-Canada Treaty, the applicable tax rate on dividends, interests and royalty payments should not exceed 18%. However, under local tax regulations the applicable tax rates for dividends and interests is 10%, therefore local tax regulations offer a most favorable tax treatment that the DR-Canada Treaty in this regard.

Notwithstanding the above, the protocol of the DR-Canada Treaty establishes a most favored nation (MFN) clause regarding dividends that allows application of a lower tax rate to the distribution of dividends if the DR agrees on such lower tax rate with a third State. In this regard, the DR-Spain Treaty states that no taxes should be applicable to the distribution of dividends provided that certain conditions are met. Therefore, in application of the MFN clause, no taxes should apply to the distribution of dividends under the DR-Canada Treaty provided that the special provisions stated in the DR-Spain Treaty are met.

Article VIII of the DR-Canada Treaty establishes the following regarding the tax treatment applicable to shipping and air transport:

- The treaty notes that “Profits derived by an enterprise of a Contracting State from the operation of ships or aircraft in international traffic shall be taxable only in that State.”
- Further, the treaty notes that “Profits from sources within a Contracting State derived by an enterprise of the other Contracting State from the operation of ships or aircraft in international traffic may be taxed in the first mentioned State.” However, this charged tax should not exceed the lesser of:
  - 4% of the gross income derived from sources in that state
  - The lowest rate of DR tax imposed on such profits derived by an enterprise of a third state

**DR-Spain Treaty:**

According to Articles X, XI and XII of the DR-Spain Treaty, the applicable tax rate on dividends, interests and royalty payments should not exceed 10%. However, as previously stated, the treaty states that no taxes should be applicable to the distribution of dividends provided that certain conditions are met.

On the other hand, the DR-Spain Treaty establishes, in accordance with Article VIII, that the profits obtained by an enterprise of a Contracting State derived from the operation of ships or aircraft in international traffic can be subject to tax in that State. Nevertheless, income derived from sources of a Contracting State, obtained by an enterprise of the other Contracting State from the operation of ships or aircraft in international traffic may be subject to tax. However, this tax should not exceed the lesser of:

- 2.5% of the gross income derived from sources in that State
- The lowest rate imposed on such profits by a treaty with a third State

The place of effective management regarding taxation of shipping companies is not the main issue in any of the above mentioned tax treaties.
1.4 **Freight taxes**
There is no special disposition regarding freight taxes in the DR. However, the CIF value (cost-insurance-freight) is added to the taxable base to determine the customs tax on imported goods.

1.5 **Special vessel registration benefits for the shipowner**
Currently, there are no special tax benefits for shipowners. Prior to the enactment of the DTC, there was a law that regulated certain tax benefits (e.g., exemptions, specially admitted deductions). The DTC has overruled said law and has not established any other benefits for shipowners in the DR.

1.6 **Major changes to tax law anticipated in the near future**
No major tax legislation changes regarding shipping are anticipated in the near future.

1.7 **Tonnage tax**
The DR tax system does not contemplate a tonnage tax regime.

### 2. Human capital

#### 2.1 Formalities and regulations for employing personnel

**Taxes on individuals**
Local tax legislation establishes two different methods for paying individual taxes on income received from a DR source, which would depend on how the income is generated:

- An annual individual income tax return (Form IR-1) due 31 March for individuals that carry out commercial activities.

or

- Payroll withholding income tax from monthly salary and any other cash compensation, payable to the local Internal Revenue Service within 10 days following the end of the month by the employer. If the salary is the only income, no tax returns should be filed by the employee.

As established in Section 296 of the DTC, DR-resident employees are taxed at annual tax rates that are adjusted by taking into account the accumulative inflation rate of the previous year. The progressive tax rate for individuals is as shown in the chart below:

<table>
<thead>
<tr>
<th>Annual income</th>
<th>Tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to DOP$409,281</td>
<td>Exempted</td>
</tr>
<tr>
<td>From DOP$409,281.01 to DOP$613,921</td>
<td>15%</td>
</tr>
<tr>
<td>From DOP$613,921.01 to DOP$852,667</td>
<td>20%</td>
</tr>
<tr>
<td>More than DOP$852,667.01</td>
<td>25%</td>
</tr>
</tbody>
</table>

For tax purposes, those individuals who remain in the country for more than 182 days during the fiscal period, continuously or not, are considered Dominican residents (Section 12 of the DTC).

Wages received by foreign employees for their work in the DR are subject to income tax from day one, regardless of where the employer is located or if the employees receive their salaries abroad.

**Registration formalities**
Entities established in the DR should register and formalize all labor contracts for foreign employees in writing with the Ministry of Labor, accompanied by a copy of the employee's work visa, as established in Resolution 25/2001 issued by the Ministry of Labor.

The registration process should take place within three days from the date of the signature. The employer

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1 The current exchange rate as of 4 March 2016 is DOP$45.79 for US$.1
must provide the following employee information to the Ministry of Labor: salary, name, nationality, gender, occupation and identity number.

This information should be filed through cost-free forms provided by the Ministry of Labor.

Foreign personnel

According to Section 135 of the Dominican Labor Code (DLC), at least 80% of the employees of an entity rendering services in the DR, including branches of foreign entities, should be Dominican nationals. However, according to Section 138 of the DLC, this provision does not apply to:

- Positions with executive or managerial duties
- Technical positions, if the Ministry of Labor preapproves such designation
- Positions in a small family business
- Foreigners married to Dominican nationals with more than three years of uninterrupted continuous residence in the DR and more than two years of marriage
- Foreign employees with Dominican children and more than five years of uninterrupted continuous residence in the DR

Christmas bonus

Pursuant to Section 219 of the DLC, in addition to the ordinary salary, entities should grant an extra salary at the end of the year, which is commonly known as the Christmas bonus. Employees who have not worked the entire year are also entitled to the Christmas bonus in proportion to the time they have been working with the entity. The Christmas bonus should be paid by December 20 at the latest.

Participation on profits

According to Section 223 of the DLC, it is mandatory for a legal entity in the DR to grant a profit participation equivalent to 10% of its annual net profits to all of its permanent employees.

Employees with less than three years of service should receive no more than the equivalent of 45 days of salary, and those employees with more than three years of service should not receive more than the equivalent of 60 days of salary.

The following entities are exempt from this profit participation requirement:

- Agricultural, agro-industrial, industrial and mining entities during the first three years of operation, unless agreed otherwise with the employees
- Agricultural entities whose capital does not exceed DOP$1 million
- Entities operating under the free trade zone (FTZ) regime

Technical education tax

A payroll-based contribution is imposed on employees and employers toward the financing of a program for the technical instruction and training of workers (INFOTEP for its Spanish acronym). The contribution is 1% of total monthly payroll for employers and 0.5% on bonuses received for employees.

Severance payment

Severance payment, due in the case of termination of the labor contract, varies depending on the duration of the employment contract as shown below (DLC Section 80). When applicable, any sums owed by the employer must be paid within 10 days of the termination of the contract (DLC Section 86). Noncompliance entails a penalty of one day of salary for every day of delay (DLC Section 86).

<table>
<thead>
<tr>
<th>Time employed</th>
<th>Severance</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 to 6 months</td>
<td>6 days of salary</td>
</tr>
<tr>
<td>6 to 12 months</td>
<td>13 days of salary</td>
</tr>
<tr>
<td>1 to 5 years</td>
<td>21 days per year</td>
</tr>
<tr>
<td>Over 5 years</td>
<td>23 days of salary per year</td>
</tr>
</tbody>
</table>
Compensation for prior notice

In addition to severance payment, an employer who terminates labor contracts should notify the employee with sufficient time to allow them a proper exit. In the event that the employer does not give prior notice to the employee, the employer must pay compensation in accordance to the following rules:

<table>
<thead>
<tr>
<th>Time employed</th>
<th>Compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 to 6 months</td>
<td>7 days of salary</td>
</tr>
<tr>
<td>6 to 12 months</td>
<td>14 days of salary</td>
</tr>
<tr>
<td>Over one year</td>
<td>28 days of salary</td>
</tr>
</tbody>
</table>

2.2 National labor law

According to Principle IV of the DLC, laws concerning work are based on a territorial principle, and such laws apply to Dominican nationals and foreigners, except for some exceptions admitted in international treaties; therefore, its regulations apply to permanent establishments of foreign entities as long as a labor relationship takes place in Dominican territory.

According to Section 288 of the DLC, labor regulations will apply to crew members when the work being provided (object of the labor contract) is provided onboard travel or commercial ships registered with the DR port authorities.

2.3 Enrollment labor law

Contract term

The labor contract between employer and crew members can be for a fixed term, indefinite term or based on the number of trips.

Whether the term agreed by the parties involved is limited or unlimited, the contract must establish where the employee’s last destination must be. If not stated otherwise, it would be understood that the last destination is the place of departure.

If the labor contract was agreed based on the number of trips, then the employer is obliged to return the employee to the port agreed by the parties. If the contract does not state the place or port of landing, the employer must return the employee to the place of residence of the employer.

Additionally, such a labor contract cannot be terminated during the trip (when the vessel is traveling), unless the employer finds a substitute for the employee who wishes to terminate the labor contract.

Minimum wage

Local legislation does not establish a special minimum wage for the shipping industry, so the standard minimum wage applies. However, the DLC clearly establishes that this wage (whatever amount is determined by the corresponding authorities) can be requested to be paid in other currency when the ship is in a foreign port.

According to the Ministry of Public Administration, the current minimum wage is DOP$5,117.50 monthly (average of US$111.76).

Non-labor days

The captain of the ship shall grant an annual leave to members of the crew, on port or at sea, provided that the service of the vessel is not affected by said leave.

Rules regarding working hours

The rules regarding working hours will differ according to the working position held by the employee. In principle, working hours are established in the labor contract.
• An officer or a junior staff member employed by an international coaster in the deck, engine and communications areas must not exceed:
  - Twenty-four hours for each period of two days while the ship is at sea
  - Eight hours per day while the ship is in port
• Officers and a junior staff member employed onboard ships in the deck, machinery and communications areas should not exceed eight hours per day.
• The catering department (of a passenger vessel) must not exceed:
  - Ten hours during a period of 14 hours when the ship is at sea and in the days of sailing and arrival and when the vessel is in port, with passengers are onboard
  - Eight hours per day when the vessel is in port and passengers are not onboard
• The working day of the catering department of a ship shall not exceed:
  - Nine hours during a period of 13 hours while the ship is at sea and in the days of arrival and sailing
  - Eight hours during a period of 12 hours when the ship is in port
• If the captain of the vessel requires members of its crew to work on the weekly day off, as provided in Section 306 of the DLC, working hours should not exceed:
  - Time required for the execution of the work for checking or cleaning, with a maximum of two hours
  - Five hours in the case of persons employed in the kitchen or the dining rooms of a passenger vessel

Overtime will be paid according to each hour or fraction incurred in addition to ordinary work. The overtime hours incurred in a week up to 68 hours, shall be paid with a 35% increase over the regular hour. The overtime hours incurred in a week over 68 hours, shall be paid with a 100% increase over the regular hour.

The following circumstances are not considered overtime:
• Work that the captain deems necessary or urgent for the safety of the ship, cargo or the persons onboard
• Work required by the captain to aid other ships or others in danger
• Work simulation for fire, rescue and similar drills
• Work required for customs formalities, quarantine or other formalities of a sanitary nature
• Extra time required for the normal relieving of the guards

National health insurance and social security

Local personnel

All Dominican citizens and legal residents have the right to be a part of the social security system. Law 87-01 on Dominican Social Security System regulates and develops the rights and duties of citizens and the state regarding funds for protection against the following risks:
• Old age
• Physical impairment
• Illness
• Motherhood
• Childhood
• Labor risk

The table below establishes the percentages that must be contributed by the employer and the employee on a monthly basis:

<table>
<thead>
<tr>
<th>Since August 2008</th>
<th>Employer</th>
<th>Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension</td>
<td>7.10%</td>
<td>2.87%</td>
</tr>
<tr>
<td>Health</td>
<td>7.09%</td>
<td>3.04%</td>
</tr>
</tbody>
</table>

This table also applies to foreign employees residing in the DR.

Foreign employees
According to Section 5 of Law 87-01, foreign employees working in foreign companies established in the DR may be excluded from the social security system if they are already covered by their home country’s social security system. Therefore, foreign companies should have the documentation that properly demonstrates that such employees are covered by their home country’s social security system.

Employees should be registered with the Social Security Treasury, as established in Law 87-01. The filing of the report establishing the withholding and the income tax should be made on a monthly basis through the Social Security Treasury’s website.

**Labor risks**

Labor risks are part of the services covered by the social security system. The Labor Risk Insurance is required to cover damages caused during labor hours, on the way to work and/or due to illness related to labor functions.

The employer must comply with the following obligations:

- Register its workers
- Notify the Labor Risk Administrator about the employees’ salaries and their modifications
- Remit the contributions to the Labor Risk Administrator

If in violation of the obligations noted above, an employer is liable for all harm caused to the employee, as well as for other actions that could be presented against the employer.

As established in Section 7 of Law 87-01, the Labor Risk Administrator determines the tariffs and assigns each employer the amount of its contribution according to the risk level of the company, which ranges from 1.2% to 1.6% of salary per employee.

**2.4 Treaties regarding social security contributions**

Currently, there are bilateral treaties regarding social security regulations with Spain and Ecuador.

**2.5 Manning advantages/disadvantages of flying the Dominican flag**

The law does not establish any advantages or disadvantages of flying the Dominican flag. The Dominican flag should be raised by the time of arrival at port and maintained until its departure. The flag should not bear its coat of arms.

**3. Corporate structure**

**3.1 Most commonly used legal structure(s) for shipping activities**

According to the General Law No. 479-08 on Corporations and Wholly Owned Enterprises, the most common legal structures are (i) corporations, (ii) limited liability companies, and (iii) wholly owned enterprises. In principle, all corporate vehicles have the same tax treatment. Refer to Section 1.1 for the average tax rate applicable to legal entities on DR source income derived from shipping activities.

**3.2 Taxation of profit distribution**

Cash-paid dividends or profits of DR source remitted by a local branch to its headquarters abroad incur a withholding tax of 10%, in accordance with Section 308 of the DTC.

Nevertheless, pursuant to the DR-Canada and DR-Spain Treaties the distribution of dividends is not subject to taxation provided that certain conditions are met.

**4. Grants and incentives**

**4.1 Specific and/or general subsidies available to shipping companies**

In the DR, there are no general subsidies available to shipping companies. However, according to Law 158-01,
certain tax incentives are available for shipping companies related to the tourism business in the DR (e.g., cruises).

4.2 Investment incentives for shipping companies and the shipbuilding industry

Law No. 08-90 on Free Trade Zones establishes a special tax treatment for industrial free trade zones (FTZ) (among others) which may benefit the shipbuilding industry.

FTZs are defined as a geographic area in the DR, submitted to special tax and customs regimes. Entities that have been granted the authorization to operate within these geographic areas benefit from total exemption on certain taxes, namely:

1) Income tax levied on corporate entities
2) Taxes on real estate transference
3) Construction and municipal taxes
4) Custom duties, value-added tax (VAT - Impuesto a la Transferencia de Bienes Industrializados y Servicios - ITBIS), and any other taxes levied on raw materials, equipment, construction materials, building parts, office equipment, etc., destined to build, enable and operate in FTZs
5) Taxes on patents and assets
6) Others

4.3 Special incentives for environmental awareness

According to Law 64-00, which regulates the use and protection of the environment and natural resources, investments made to protect the environment and the sustainable use of the country’s natural resources are eligible for incentives. These incentives may vary depending on the circumstances, but in general they consist of partial or total exemptions on certain taxes, such as import duties and value-added tax, as well as shorter periods of depreciation for income tax deduction purposes.

4.4 Advantages and disadvantages of flying the Dominican flag

Flying the Dominican flag is a mandatory activity that must be done when a foreign vessel enters Dominican territory, but the law gives no advantages or disadvantages for raising the Dominican flag.

4.5 Major changes in shipping subsidy legislation anticipated in the near future

There are no current bills or upcoming laws regarding subsides for shipping companies in the near future.

5. General information

5.1 Infrastructure

5.1.1 Major ports

<table>
<thead>
<tr>
<th>Name of port</th>
<th>Location of port</th>
</tr>
</thead>
<tbody>
<tr>
<td>Port AES Andrés</td>
<td>Boca Chica</td>
</tr>
<tr>
<td>Port of Boca Chica</td>
<td>Boca Chica</td>
</tr>
<tr>
<td>Port Multimodal Caucedo</td>
<td>Boca Chica</td>
</tr>
<tr>
<td>Port of Itabo</td>
<td>San Cristóbal</td>
</tr>
<tr>
<td>Port of Palenque</td>
<td>San Cristóbal</td>
</tr>
<tr>
<td>Port of Las Calderas</td>
<td>Baní</td>
</tr>
<tr>
<td>Port Arroyo Barril</td>
<td>Samaná</td>
</tr>
<tr>
<td>Port of Azua</td>
<td>Azua</td>
</tr>
</tbody>
</table>
5.1.2 Port facilities
- Maintenance and repair facilities
- Docking facilities
- Storage facilities
- Cranes for every size of vessel

5.1.3 Support services for the shipping industry
- Consulting firms specialized in shipping
- Maritime law services
- Insurance brokers for the shipping industry

5.1.4 Maritime education
The Dominican Republic Navy is the only institution that provides maritime education for military purposes.

5.2 Safety and environmental issues

5.2.1 Implementation of the International Safety Management Code
There is no special regulation that allows for the implementation of the International Safety Management (ISM) Code. However, most shipping companies in the DR have commercial relations with the US; therefore, the implementation of safety measures in vessels are looked at more rigorously.

5.2.2 Safety rules regarding manning
In theory, the safety rules are moderately strict, as law and regulations provide general safety measures that vessels and maritime transportation devices should follow. However, corresponding authorities often do not enforce these regulations with appropriate attention, making safety measures in practice less strict than they should be.

5.2.3 Special regulations on safety and the environment
The following are special regulations for safety:
- Code for the Protection of Vessels and Port Installation (PBIP)
- Business Anti-Smuggling Coalition (BASC)
- Container Security Initiative (CSI)
- Maritime Transportation Security Act (MTSA – 2002)
- Treaty to Facilitate International Maritime Traffic (FAL 65)
- International Convention for the Prevention of Pollution from Ships (MARPOL)
- Convention for the Safety of Life at Sea (SOLAS)

Although most of these regulations are international regulations or, in general, regulations from other jurisdictions, they are applicable in the DR because most vessels seek to comply with US safety requirements.

<table>
<thead>
<tr>
<th>Name of port</th>
<th>Location of port</th>
</tr>
</thead>
<tbody>
<tr>
<td>Port of Barahona</td>
<td>Barahona</td>
</tr>
<tr>
<td>Port of Cabo Rojo</td>
<td>Pedernales</td>
</tr>
<tr>
<td>Port of Haina</td>
<td>San Cristóbal</td>
</tr>
<tr>
<td>Port of La Romana</td>
<td>La Romana</td>
</tr>
<tr>
<td>Port of Manzanillo</td>
<td>Monte Cristi</td>
</tr>
<tr>
<td>Port of Puerto Plata</td>
<td>Puerto Plata</td>
</tr>
<tr>
<td>Port of San Pedro de Macorís</td>
<td>San Pedro de Macorís</td>
</tr>
<tr>
<td>Port of Santo Domingo</td>
<td>Santo Domingo</td>
</tr>
</tbody>
</table>
5.3 **Registration**

5.3.1 **Registration requirements**
There are no special registration requirements in the DR for flying the country's flag.

5.3.2 **Ship registration procedure**
Vessels arriving to the DR should be announced by their freight forwarder, who is in charge of organizing a vessel's arrival and departure.

The freight forwarder must inform the port authorities about the incoming vessel (i.e., time of arrival, date of departure, general information about the vessel).

Subsequently, at the vessel's arrival, the responsible individual will have to file a registration form with the port authorities stating the following information:

- Name and identification (ID) of the vessel's captain
- Name and ID of each crew member
- Detailed information about the goods being transported, including a description of the weight, nature and quantity, as well as certain information necessary to comply with the country's anti-money-laundering rules
- Place of departure of the vessel
- Further destination after the DR
- Name of the owner of the vessel
- Name of the freight forwarder

According to international regulations, the DR is not allowed to issue any kind of local license for ships. In order to issue any kind of registry, countries must comply with certain international requirements, which the DR has not fulfilled.

5.3.3 **Parallel registration**
There are no regulations that provide for the possibility of parallel registration.

5.3.4 **Requirements for officers and crew serving on vessels**
According to local legislation, officers and crew serving on vessels, when registering the ship for its arrival, will be required to provide information and documentation (i.e., marine ID or equivalent) without prejudice to the nationality of the crew member. The marine ID is considered by local legislation and authorities to be the ID that proves that the mariner's technical abilities and knowledge have been approved by the mariner's local government.

5.3.5 **International conventions regarding registration**
The DR has signed several international conventions regarding maritime regulation, such as the Convention on Facilitation of International Maritime Traffic (FAL 65), the International Convention for the Safety of Life at Sea (SOLAS) and the Operative Network of Regional Co-operation on Maritime Matters in Central America and the Dominican Republic (ROCRAM-CA). The DR is also a member of the International Maritime Organization (IMO). However, the DR has yet to enact local regulations for the correct applications of the international regulations.

The DR has also agreed to a series of free trade international agreements, including the following:

<table>
<thead>
<tr>
<th>Free Trade Agreements</th>
<th>Parties involved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dominican Republic – Central America Free Trade Agreement (DR-CAFTA)</td>
<td>United States, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Puerto Rico</td>
</tr>
<tr>
<td>Partial Reach Agreement (AAPP)</td>
<td>Panama</td>
</tr>
</tbody>
</table>
5.3.6 Special requirements and rules relating to registration

Law 603-77 regulates mortgages on any type of ship or vessel. Ship mortgages need to be registered with the port authorities (i.e., the Ministry of State of Industry and Commerce).

In general, the law states:

• A ship mortgage can be levied over any type of vessel whether maritime or fluvial, constructed or being constructed, in the terms agreed between the parties.

• The mortgage may be exerted over the whole ship, a portion of the ship, the title-property or even the usufruct of the ship.

• The contract that supports the mortgage will need to include:
  - Name, surname, profession and residence of the debtor and creditor
  - Quantity of the credit that constitutes the mortgage (including interests and taxes)
  - Date when payment is due and details of the interests that might apply to the credit
  - Details of the ship (i.e., name, distinctive characteristics, complete description, number and date of inscription)
  - Value or appreciation of the ship at the time of the mortgage
Estonia

1. Tax

1.1 Tax facilities for shipping companies
There are no specific tax facilities for shipping companies in Estonia. However, resident companies and permanent establishments of nonresident companies in Estonia are not subject to corporate income tax (CIT) on undistributed profit, because only distributed profit (usually in the form of a dividend) is subject to CIT. The expenses that are not deductible in a traditional system (e.g., fringe benefits, gifts, donations, representation expenses, expenses and payments not related to business) are taxable in Estonia like profit distribution. CIT at the rate of 20% from the gross amount (i.e., the net amount multiplied by 20/80) is applied to the aforementioned payments and to profit distribution.

Free catering provided by the employer, which, as a rule, is subject to tax as a fringe benefit, is exempt from fringe benefit tax if the daily cost of meals does not exceed €10 per ship crew member.

1.2 Tax facilities for seafarers
There are no special tax facilities for seafarers. Nonresident natural persons from the European Economic Area (EEA) who receive more than 75% of their annual taxable income from Estonia and resident natural persons can deduct from their taxable income a basic annual tax exemption of €2,040, and also housing loan interest, donations and contributions to pension funds, among other costs within specified limits.

The flat income tax rate for natural persons is 20%.

1.3 Tax treaties and place of effective management
Estonia has effective double taxation avoidance agreements regarding income and capital taxes with 56 countries (the list continues to expand):

Albania, Armenia, Austria, Azerbaijan, Bahrain, Belarus, Belgium, Bulgaria, Canada, China, Croatia, Czech Republic, Cyprus, Denmark, Finland, France, Georgia, Germany, Greece, Hungary, Iceland, India, Ireland, Isle of Man, Israel, Italy, Jersey, Kazakhstan, Korea (South), Latvia, Lithuania, Luxembourg, Macedonia, Malta, Mexico, Moldova, Netherlands, Norway, Poland, Portugal, Romania, Serbia, Singapore, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Thailand, Turkey, Turkmenistan, Ukraine, United Arab Emirates, United Kingdom, United States, and Uzbekistan.

According to the Estonian Income Tax Act, resident companies are companies registered (effectively the same as incorporated) in Estonia. The business entities of Estonia are regulated by the Estonian Commercial Code. European public limited liability companies and cooperative societies that have their registered office in Estonia are deemed to be taxable Estonian residents.

Estonia's tax treaties are based on the Organisation for Economic Co-operation and Development (OECD) model tax convention; as such, exclusive taxing rights are conferred on the state of registration even if the place of effective management is not the state where the enterprise operating the ships is located.

1.4 Freight taxes
Estonia does not levy freight taxes.

1.5 Special vessel registration benefits for the shipowner
There are no special tax benefits other than the general non-taxation of retained profits of resident legal persons and permanent establishments of nonresidents (see section 1.1).

1.6 Major changes to tax law anticipated in the near future
There are no major changes to tax law anticipated in the near future, however, starting from 2015, the maximum sulphur content of the fuels used in ships operating in the Baltic Sea, the North Sea and the English Channel cannot be more than 0.1% — instead of the 1% that was applicable before. These changes affect both
transportation of passengers and cargo.

1.7 **Tonnage tax regime**
Estonia does not have a tonnage tax regime.

2. **Human capital**

2.1 **Formalities and regulations for employing personnel**
The acts that regulate employment relationships (primarily the Employment Contracts Act), together with the specifications provided for in the Seafarers Employment Act, apply to employing personnel working on ships. The Seafarers Employment Act provides specifications relating to employment relationships of persons working on ships registered in the Estonian Ship Register or the register of bareboat chartered ships. The Seafarers Employment Act is also applied to the performance of duties by way of temporary agency work on ships not specified as registered in Estonia, provided the employer is a legal person registered in Estonia and the crew member is listed in the Estonian population register.

A seafarer’s contract of employment is an agreement between a shipowner or another employer and a crew member under which the crew member undertakes to work in the interests of the shipowner in subordination to the management and supervision of the shipowner, and the shipowner undertakes to remunerate the crew member for such work and to provide such working conditions as are prescribed by law, the seafarer’s contract of employment or collective agreement (if applicable) and by agreement between the parties. The parties to a seafarer’s contract of employment are a crew member and a shipowner or another employer.

If a crew member has to commence employment on a ship that is not located in the place where the seafarer’s contract of employment is entered into, the shipowner shall, at the shipowner’s expense, make travel arrangements for the crew member to reach the location of the ship and provide the crew member with food and accommodation during the journey.

The costs of returning a crew member sent to a health care institution due to illness or injury to the ship together with the expenses for food and accommodation during his or her return journey shall also be borne by the shipowner.

Special regulations have also been provided for requirements of accommodating, catering and counting the working and rest time of the ship’s crew.

2.2 **National labor law**
The Seafarers Employment Act, jointly with the Employment Contracts Act, shall apply to employing personnel working on ships. In addition, if the ship's crew is assigned under collective agreement, the Collective Agreements Act shall also apply.

As the terms and conditions of a seafarer’s contract of employment have been intricately described in the Seafarers Employment Act, the Employment Contracts Act shall apply only in circumstances not described therein.

The Private International Law Act also applies in cases where a legal relationship is connected with the law of more than one state. If it becomes evident from all the circumstances that the employment contract is more closely connected with another state, then the law of such other state applies.

2.3 **Collective labor law**
The Collective Agreements Act is in place to determine the legal basis for entry into and performance of collective agreements. A collective agreement is a voluntary agreement between employees, or a union or federation of employees, and an employer or an association or federation of employers, as well as state

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1 The minimum wage determined with collective agreement cannot be below statutory minimum, which is as of 1 January 2016 €430 (for full-time workers).
agencies or local governments that regulates labor relations between employers and employees. With a collective agreement, the parties may agree to the conditions of working, rest time, occupational health and safety, suspension, amendment and termination of an employment contract, and the rules for calculating the continuous length of employment with the same employer, as well as the conditions and procedure for layoff of employees and guarantees in the event of layoff. A collective agreement entered into by the parties may also determine the minimum wage and the procedure for amending it based on rises in the cost of living, additional employment guarantees, and additional measures providing assurance regarding occupational health and safety.

Estonian Seamen's Independent Union (ESIU) unites over 2,000 seafarers, port and hotel workers. ESIU representatives participate:

- In tripartite negotiation with employers organization and government, member of the delegation of the Estonian Trade Union Confederation (EAKL)
- In committees of the EAKL council
- In the Estonian Maritime Advisory council

Additionally, ESIU has signed the ITF Uniform CBA on app. 30 FOC-flagged ships, regulating working and living conditions for crews mainly from Estonia.

2.4 Treaties regarding social security contributions

As Estonia is a European Union (EU) Member State, the provisions of Council Regulation (EC) No. 883/2004 of 29 April 2004 on the application of social security schemes to employed persons, self-employed persons and members of their families moving within the community should be followed.

Estonia has also entered into an agreement on social security (a totalization agreement) with Latvia (since 29 January 1997), Lithuania (since 10 February 1997), Finland (since 1 October 1997), Ukraine (since 1 February 2012), Canada (since 1 November 2006) and Russia (since 2 February 1996).

2.5 Manning issues with flying the Estonian flag

There are no Manning issues with regard to flying the Estonian flag.

3. Corporate structure

3.1 Most commonly used legal structures for shipping activities

The most commonly used legal structures for the operation of shipping activities are the public limited liability company and the private limited liability company. In particular cases, a partnership is used. In some cases, nonresident companies prefer to set up a branch.

In all of the legal structures mentioned above, the taxation follows the same provisions, i.e., a 20% income tax on gross amount shall be levied on profit distribution (see subsections 1.1 and 3.2).

3.2 Taxation of profit distribution

Resident companies and permanent establishments of nonresident companies in Estonia are not subject to CIT when the profit is earned, but when the profit is distributed (usually in the form of a dividend).

However, the expenses that are not deductible in a traditional system (e.g., fringe benefits, gifts, donations, representation expenses, expenses and payments not related to business) are taxable in Estonia. Resident companies and permanent establishments of nonresident companies have to pay CIT on profit distributions (i.e., dividends).

CIT at the rate of 20/80 is applied on the net amount of such payments (i.e., 20% on the gross amount). Consequently, a company’s tax liability arises when it makes distributions, not when the profits are earned.
The transfer of profit from a permanent establishment to its head office or to other nonresidents is also treated as a taxable distribution.

4. Grants and incentives

4.1 Specific and/or general subsidies available to shipping companies
There are no general subsidies for shipping companies. Subsidies may be available in cases where a shipping company provides domestic transportation services as the result of winning a public procurement.

4.2 Investment incentives for shipping companies and the shipbuilding industry
There are no specific investment incentives for shipping companies or for the shipbuilding industry. An indirect incentive is derived from the specific nature of the Estonian taxation policy (as specified in 1.1).

4.3 Special incentives for environmental awareness
The January 2015 Directive 1999/32/EC regulates the sulfur content in gas and oil used by ships sailing in the Baltic Sea, the North Sea and the English Channel. There are no special incentives specific to the shipping industry; however, there is an incentive called the Environmental Deed and Environmentally Friendly Company of the Year award that was introduced by the Ministry of the Environment. This award not only addresses shipping companies, but also commends outstanding performances connected with environmental protection and is intended to identify organizations that have been most concerned with environmental issues.

4.4 Issues with flying the Estonian flag
There are no specific issues regarding subsidies and grants when flying the Estonian flag.

The national flag of Estonia shall be flown by seagoing vessels owned by:
- Estonian citizens residing in Estonia
- General and limited partnerships located in Estonia in which Estonian partners have a majority of votes
- Other legal persons in private law located in Estonia in the management boards or equivalent bodies of which Estonian citizens form a majority

The captain of a seagoing vessel for which a paper of Estonian nationality has been issued must be an Estonian citizen.

4.5 Major changes in shipping subsidy legislation anticipated in the near future
No major changes are expected.

5. General information

5.1 Infrastructure

5.1.1 Major ports
Estonia is geographically in a favored location open to the Baltic Sea, enabling close access to Germany, Scandinavian countries and the Russian Federation, which is an international transit hub. A number of major Estonian harbors are navigable year-round and easily approachable with depths of up to 18 meters, enabling them to receive all vessels that are able to pass the Danish Straits.

Some of the major ports are:
- Port of Tallinn – consists of five harbors, two larger and three smaller ones – Old City, Muuga, Paldiski South, Paljassaare and Saaremaa. Additional information:  www.portoftallinn.com
- Port of Sillamäe – a privately owned port that is the most eastern deepwater port in Estonia and in the EU, situated 25 km from the EU-Russian border. Additional information: http://www.silport.ee/index_eng.html
- Paldiski Northern Port – a privately owned port that specializes in handling general cargo, dry bulk,
rolling cargo and containers. The port is 50 km west of Tallinn. Additional information: http://www.portofpaldiski.ee/files/eng/index_eng.html


- Port of Kunda – a privately owned port that specializes in handling cargo and whose biggest clients are mostly log and other wood products exporters. The port is situated 111 km east of Tallinn. Additional information: http://www.knc.ee/en/node/5166

- Saarte Liinid – maintains and develops harbors in Western Estonia and on the Estonian islands to ensure navigation between them. Additional information: www.saarteliinid.ee/eng


5.1.2 Port facilities
Among others, the following support facilities are available in these ports:

- Maintenance and repair
- Docking
- Freight forwarding
- Towing
- Waste handling
- Storage and terminals (e.g., liquid bulk cargo, oversized cargo, roll-on, roll-off)
- Cranes for every size of vessel
- Business incubation services at ports

There are a number of industrial parks at ports with all necessary connections to plot borders (water, sewerage, gas, power and telecommunications). In addition, there are three Free Zone Areas in Estonian ports: Muuga, Paldiski Northern and Sillamäe Harbors.

5.1.3 Support services for the shipping industry
Among others, the following supporting facilities for the shipping industry are easily available:

- Maritime law services
- Insurance brokers for the shipping industry
- Cargo handling services
- Bunkering services
- Stevedore services
- Chandler services

5.1.4 Maritime education
The main maritime educational institutions in Estonia are:

- Estonian Maritime Academy: https://www.ttu.ee/institutes/estonian-maritime-academy/
- Nautical College of Estonian Maritime Academy: http://www.merekool.ee/est

5.2 Safety and environmental issues
5.2.1 Implementation of the International Safety Management Code
The implementation of the International Safety Management (ISM) Code aboard vessels depends on the vessel's displacement tonnage. Wherever implementation of the ISM Code is required, the companies concerned comply. As of 1 July 1996, the regulation is mandatory for seagoing passenger roll-on, roll-off (Ro-Ro) ferries operating a regular service to or from a port of an EU Member State. On 11 January 2006, the Agreement Concerning Specific Stability Requirements for Ro-Ro Passenger Ships Undertaking Regular Scheduled International Voyages Between or to or From Designated Ports in North West Europe and the Baltic Sea, 1996 entered into force in Estonia.
5.2.2 Safety rules regarding manning
All manning processes are regulated by law (including the Seafarers Employment Act). Shipping companies should abide by these rules.

5.2.3 Special regulations on safety and the environment
All requirements regarding safety and the environment are stated in the Maritime Safety Act, which regulates the seaworthiness of ships, recreational crafts and other watercrafts and their navigability in navigable inland waters, the safety of ships (including safety rules) and ensuring the safety of vessel traffic on waterways.

5.2.4 Port state control
The Estonian Maritime Administration is responsible for the port state control. The Estonian Maritime Administration operates under the area of government of the Ministry of Economic Affairs and Communications.

5.2.5 Sanctions that may be imposed by port state control
- Prohibit a ship from leaving a port (detention)
- Prohibit the use of a ship's compartments, shipboard installations or work equipment if the condition thereof endangers the life or health of crew members or passengers
- Issue precepts for the elimination of deficiencies and a term for the elimination of deficiencies
- Allow the ship, with the approval of the maritime administration of the flag state and if the seaworthiness of the ship allows, to proceed to the nearest appropriate repair yard available where the ship can be repaired
- Suspend a regular service or prohibit commencement of a regular service of a Ro-Ro passenger ship or a high-speed passenger craft
- Prohibit ships flying a foreign flag from entering Estonian ports or anchorage

In case of violation of requirements for notification of ship-generated waste, cargo residues and dangerous cargo or for transfer and reception of ship-generated waste, cargo residues and dangerous cargo or failure to submit an information note to a ship or other watercraft concerning inadequate reception facilities, the Environmental Inspectorate has a right to punish by a fine of up to €32,000 for legal person and €1,200 for natural person.

5.3 Registration

5.3.1 Registration requirements
All requirements for ship registration are stated in the Law of Ship Flag and Ship Registers Act. The ship registry comprises the ship register and the register of ships under construction. A separate register shall also be maintained concerning bareboat chartered ships. The use of unregistered ships for merchant shipping is prohibited.

The following vessels must be registered in the Estonian Ship Register:
- A seagoing vessel at least 12 meters in length flying the Estonian flag
- An inland vessel at least 12 meters in length whose owner is a natural person and whose place of residence is Estonia or a legal person located in Estonia
- Sailing yachts and launches that are a minimum of 24 meters in length

There is voluntary registration for ships that fly the Estonian flag whose overall length does not exceed 12 meters (less than 24 meters in the case of sailing yachts and launches), non-propelled floating vessels situated in Estonia (e.g., floating crane, floating dock) and ships built in Estonia that are permanently marked with a name or number and keel in which it has been laid.

Registering a ship in the Estonian Ship Register gives the shipowner the possibility of establishing a mortgage on such registered ship as security for a claim, or usufruct. In addition, value-added tax (VAT) incentives apply to a registered ship.
There is no age limit for ships that can be registered in Estonian ship registries.

5.3.2 Ship registration procedure
In order to register a seagoing or inland vessel (and in accordance with the Law of Ship Flag and Ship Registers Act), required documents should be submitted to the Estonian Ship Register’s registration department. Notary and state fees have to be paid for the registration.

The Estonian Ship Register holds the data related to marine and inland vessels (including fishing vessels) and the non-propelled floating vessels and vessels under construction. In addition to the vessel's technical data, the Ship Register stores data about the vessel's owners, ship mortgages, usufructs and prohibition notations and other restrictions regarding the vessels. The data in the Ship Register have legal force. Any transaction made with a registered vessel enters into force only after the transaction has been entered into the Ship Register.

Other vessels flying the Estonian flag (e.g., chartered ships without a crew, small ships, ships that perform state administrative duties) are registered by the Maritime Administration. Unlike the Ship Register, the registers of the Maritime Administration have no legal effect; they are simply technical databases.

5.3.3 Parallel registration
In Estonia, parallel registration is available for seagoing vessels that, pursuant to the Law of Ship Flag and Ship Registers Act, may fly the national flag of the Republic of Estonia and shall be entered in the register of bareboat chartered ships. Such parallel registration is available under international agreement or, for seagoing vessels at least 12 meters in length, on the basis of a provisional certificate of nationality issued by the Maritime Board at the request of the charterer if the following apply:

- The charterer of the ship belongs to an Estonian citizen or an entity located in Estonia whose management boards or equivalent bodies comprise a majority of Estonian citizens (for general and limited partnerships: those in which Estonian partners have a majority of votes).
- The ship has been bareboat-chartered for use in the charterer's own name.
- The shipowner consents to the exchange of flags.
- The law that had applied with regard to the ship does not prohibit flying the national flag of the Republic of Estonia.

5.3.4 Requirements for officers and crew serving on vessels
There are special requirements (e.g., related to catering, clothes, accommodation, safety) for officers and crew serving on vessels. The requirements are stipulated with different regulations in accordance with the Seafarers Employment Act.

5.3.5 International maritime conventions to which Estonia has acceded
United Nations Conventions:
- The International Convention on Arrest of Ships, 1999
- The International Convention on Maritime Liens and Mortgages, 1993

IMO Conventions:
- The International Maritime Organization (IMO) Convention
- The Convention for the Suppression of Unlawful Acts against the Safety of Maritime Navigation (SUA)
- Other conventions

International Labour Organization (ILO) Convention:
- Merchant Shipping (Minimum Standards) Convention, 1976

5.4 General comments
Additional information on Estonian logistics and the shipping industry can be found at the following websites:
- Estonian Maritime Administration: http://www.vta.ee/?lang=en
- Estonian Ports Association: www.estonianports.com
- Estonian Logistics and Transit Association: www.transit.ee/_eng
1. Tax

1.1 Tax facilities for shipping companies

Finland enacted new tonnage tax legislation as of 1 March 2012.

In general, shipping companies are subject to taxation under the normal corporate income tax regime. The corporate income tax rate in Finland is 20% (beginning 1 January 2014).

A shipping company established in Finland engaging in international transport of goods or passengers, however, may elect, instead of normal corporate income taxation (based on actual profits), a tax on the income calculated on the basis of the total net tonnage of the company’s fleet. Such income is taxable at the regular, flat corporate income tax rate of 20%. In addition to companies resident in Finland, the regime applies to Finnish permanent establishments of international shipping companies that are resident in another European Union (EU) Member State.

To qualify for the tonnage tax regime, the shipping company’s actual place of management must be in Finland, and the company has to transport to or from Finland and be tax-liable in Finland, have at least 60% of its fleet’s net capacity registered in the EU Member States and own at least 20% of the fleet it uses for international shipping.

Furthermore, vessels held and chartered out on a bareboat- or time-charter basis qualify for the regime if the charter period is less than three years, the shipping company has a temporary overcapacity and the capacity of the vessels chartered out does not exceed 20% of the net capacity of the company’s fleet.

Shipping companies have to apply for the tonnage tax regime by 31 December 2014 or within three months from the establishment of a new corporation. If a company decides to opt for the tonnage tax regime, it commits itself to the regime for a period of 10 years, which is called a tonnage tax period. The tonnage tax period can be renewed.

The income subject to tonnage tax is calculated as follows:

<table>
<thead>
<tr>
<th>Tonnage</th>
<th>Taxable income per day per 100 tons (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-1,000</td>
<td>0.9</td>
</tr>
<tr>
<td>1,001-10,000</td>
<td>0.7</td>
</tr>
<tr>
<td>10,001-25,000</td>
<td>0.5</td>
</tr>
<tr>
<td>Above 25,000</td>
<td>0.2</td>
</tr>
</tbody>
</table>

The computed income based on the total net tonnage of the fleet is subject to the normal corporate income tax rate of 20%. Also, the days during which the vessels are not in transit are subject to tax.

Any costs or expenses (e.g., depreciations) incurred in connection with the generation of income subject to tonnage tax are not deductible for the tonnage taxation. The tonnage tax regime only applies to income derived from international transportation of goods and passengers and activities directly relating thereto; any other income of the shipping company, derived, for example, from sales of goods not to be consumed onboard, is subject to the normal corporate income tax regime (profit is taxed at 20% flat tax rate). Thus, in many cases, a shipping company may have both income subject to tonnage tax and income subject to normal corporate income tax.

Shipping companies opting for the tonnage tax regime gain a possibility for tax relief regarding their latent tax. One-ninth of the total latent tax is deducted every year the company is taxed under the tonnage regime, starting from the second tonnage tax regime year. However, the relief cannot exceed the yearly maximum amount of state aid available per each taxpayer, considering all aid received by the taxpayer in question. The
maximum amount of relief is confirmed yearly by the tax authorities.

Profit distribution by a limited liability shipping company is taxed similarly to profit distribution by a normal limited liability company. See further information on taxation of profit distribution in Section 3.2. According to the tonnage tax law, any tax levied by a foreign state is not credited against tonnage taxation in Finland.

The sanctions for failure to comply with the tonnage tax regime are rather strict, as there is a possibility of retroactively levying income tax if the shipping company does not fulfill the requirements set for tonnage tax regime status. If the taxpayer does not meet the requirements, it is possible that income tax will be levied retroactively on the total income of the tonnage tax period. However, a certain time period is reserved for the taxpayer to fix the nonconformance. Additionally, there is a possibility of a punitive tax increase in certain cases. In cases where the tonnage tax status is revoked, the taxpayer cannot reapply for the tonnage tax status regime during the next 10 years.

Under the regime, the shipping company can deduct a repurchase reserve from its taxable income if it has or can reliably show that it intends to purchase a vessel to be used in activities falling under the tonnage tax regime during the next three years from the disposition.

1.2 Tax facilities for seafarers

Seafarers are allowed to deduct a so-called seafarers’ earnings allowance from their taxable seafarers’ income.

Seafarers receiving seafarers’ income as determined in the Finnish Income Tax Act are allowed to deduct 18% of their earnings earned on a Finnish or foreign ship in computing their national income taxation. However, the seafarers’ earnings allowance in national income taxation is €6,650 at maximum. National income tax is imposed according to progressive tax rates.

Seafarers are also allowed an earnings allowance in municipal taxation. Seafarers receiving seafarers’ income as determined in the Finnish Income Tax Act are allowed to deduct 30% of their income earned on a Finnish or foreign ship in computing municipal taxation. However, the earnings allowance in municipal taxation is €11,350 at maximum and is increased by €170 per month when the ship is located outside Finland’s borders and the seafarer is onboard. Municipal tax is imposed according to the flat tax rates.

1.3 Tax treaties and place of effective management

Finland has concluded double-taxation agreements with respect to income and capital taxes with more than 60 countries. Thus, there is an extensive network of tax treaties that in many cases effectively reduces the rates enacted in domestic legislation.

According to the domestic Finnish tax rules, a corporate body (e.g., a limited company) is deemed to be domiciled in Finland if it is registered (incorporated) in Finland or otherwise established under Finnish law. A corporate body is not deemed to be domiciled in Finland based on the fact that it has a place of management in Finland. If a corporate body is tax-resident in Finland, it is, according to domestic Finnish legislation, liable to taxation on its worldwide income.

Finland’s tax treaties are mostly based on the Organisation for Economic Co-operation and Development (OECD) model tax convention. According to the OECD model tax convention on income and on capital, Article 8, the place of effective management of a shipping company is crucial: the profits of a shipping company shall be taxable only in the state in which the place of effective management of the company is situated. Finland’s tax treaties are, generally, based on the model tax convention and thus in most of the applicable treaties, Article 8 is as mentioned. The interpretation of the relevant articles is usually based on the commentaries on the model tax convention and customary application of the treaties.

1.4 Freight taxes

Finland does not levy any freight taxes. Finland has concluded treaties with other countries that grant relief from these taxes.
1.5 Special vessel registration tax benefits for the shipowner
The mere registration of the vessel is not enough. The owner of the vessel or the company carrying on shipping activities has to be a Finnish company (a subsidiary of the foreign investor). See also Section 1.1 above.

2. Human capital

2.1 Formalities for hiring personnel
All crew members must have:
- A relevant Finnish certificate or an endorsement from the Finnish Maritime Administration for their respective positions
- A medical certificate
- A relevant Standards of Training, Certification & Watchkeeping (STCW) 95 basic training certificate
Public mustering must be carried out for all crew members by the Finnish Maritime Administration.

2.2 National labor law
National labor law does not apply to crew members. Finland has three separate laws that regulate the working conditions of crew members:
- The Seamen's Act (1978/423)
- The 1976/296 Act relating to hours of work onboard ships
- The Seamen's Annual Leave Act (1984/433)

2.3 Collective labor agreements
The Finish Financial Supervisory Authority has entered into collective labor agreements with:
- The Finnish Engineers' Association
- The Finnish Seamen's Union
- The Finnish Ships' Officers' Union
These agreements, together with the laws listed in Section 2.2 above, cover wages and other working conditions, such as hours of work and hours of rest, duration of service vacation, repatriation, sickness/disability and death benefits.

2.4 Treaties relating to social security contributions
All seafarers and employers are required to contribute to the social security system and to the Seafarers’ Pension Fund. EU Directive 1408/71 on social security is in force in Finland.

2.5 Manning issues with flying the Finnish flag
The Finnish manning costs are above the European average.

3. Corporate structure

3.1 Most commonly used legal structures for shipping activities
The most common legal structure for shipping companies is a public or private limited liability company. Limited liability companies are subject to corporate income tax at the 24.5% rate. See also Section 1.1 above.

3.2 Taxation of profit distribution
Under the Finnish corporate tax regime, dividend income received by a Finnish-resident entity is, in general, tax exempt in Finland if certain requirements are met. In the new tonnage tax regime, dividend distribution is taxed similarly to the manner of normal limited liability companies.
According to domestic law, dividends paid to foreign shareholders would generally be subject to a withholding tax. However, no withholding tax is due in Finland on dividends paid to a qualified parent company located in an EU Member State. In addition, tax treaties usually effectively reduce the rate of the withholding tax or eliminate the withholding tax on dividends.

Finnish partnerships are not regarded as separate taxable entities. The taxation of a partnership is imposed at the partner level. However, the taxable income of a partnership is determined at the partnership level. In general, regarding partnerships, no withholding tax is due based on profit distribution. A Finnish-resident noncorporate partner’s share of a Finnish partnership’s income may be considered partly capital income and partly earned income. However, if the partner is an entity, the partner’s share, if taxable in Finland, is taxed at the corporate tax rate of 20%. This applies to both Finnish and foreign partners that are entities. Advance taxes may be levied at the partner level.

4. Grants and incentives

4.1 Specific and/or general subsidies available to shipping companies
Under the Finnish second register, Finnish shipowners, or under certain conditions, Finnish shipping companies, enjoy a reimbursement of all social security costs and seafarers’ income taxes for cargo vessels. Until 2009, a broadly similar system was applicable to passenger ships as well.

4.2 Investment incentives for shipping companies and the shipbuilding industry
No investment incentives are available.

4.3 Special incentives for environmental awareness
No special incentives are available.

4.4 Issues with flying the Finnish flag
There are no specific issues.

4.5 Major changes in shipping subsidy legislation anticipated in the near future
No major changes are expected.

5. General information

5.1 Infrastructure
5.1.1 Major ports
The major ports in Finland are: Hamina Kotka, Hanko, Helsinki, Kemi, Kokkola, Naantali, Oulu, Pori, Raah, Rauma, Sköldvik and Turku.

5.1.2 Port facilities
The following facilities are available:
- Maintenance and repair
- Docking
- Storage
- Cranes for every size of vessel

5.1.3 Support services for the shipping industry
The following support services for the shipping industry are readily available:
- Banks with a shipping desk
- Consulting firms specializing in shipping
• Maritime law services
• Insurance brokers for the shipping industry

5.1.4 Maritime education
The major maritime educational institutions are:
• Åland Polytechnic/Maritime Studies (Mariehamn)
• Ålands Sjömansskola/Maritime Studies (Mariehamn)
• Kotka Vocational Institute/Maritime Studies
• Kymenlaakso Polytechnic/Maritime Studies (Kotka)
• Rauma Vocational Institute/Maritime Studies, Satakunta Polytechnic/Maritime Studies (Kankaanpaa)
• Sydväst Polytechnic/Maritime Studies (Raseborg)
• University of Turku/Center for Maritime Studies
• Meriturvakeskus (The Maritime Safety Training Center)

5.2 Safety and environmental issues

5.2.1 Implementation of the International Safety Management Code onboard vessels
All Finnish vessels and owners, including inland/domestic traffic, are certified (Safety Management Systems and International Safety Management Code certificate).

5.2.2 Safety rules regarding manning
Finnish safety rules may be characterized as strict to medium.

5.2.3 Special regulations on safety and the environment
The Stockholm Agreement concerning bow doors on passenger ferries applies.

5.3 Registration

5.3.1 Parallel registration
There is no possibility for parallel registration, e.g., bareboat charter. However, companies in EU Member States are allowed to register ships under the Finnish flag without transferring the ownership of the vessel to Finland.

5.3.2 Requirements for the officers and crew serving on vessels
The qualifications of officers and crew have to comply with STCW 95.

5.3.3 International conventions regarding registration
No international conventions are applicable.

5.3.4 Special requirements/rules relating to registration
There are special surveys of Finnish- and Swedish-flagged passenger vessels sailing between ports in Sweden and Finland according to a bilateral agreement.
1. Tax

1.1 Tax facilities for ship charterers

_Tonnage tax regime_

As with many other European countries, France implemented a tonnage tax regime, which started 1 January 2003, under which a shipping company can compute its French corporate income tax (CIT) at the rate of 33.33% based on a notional profit, depending on the net tonnage of the ship operated.

This regime is optional, and a shipping company needs to expressly elect for this regime for a 10-year period. Each year, the shipping company must enclose with its tax return the mandatory Form 2076, which is specific to the tonnage tax regime. Furthermore, the choice to do so is binding for a 10-year period, and at the end of that period, the tonnage tax election can be expressly renewed for another 10 years.

Under the tonnage tax regime, the taxable notional profit is determined on the basis of the net tonnage of the vessels operated (rather than on the actual profit derived from its shipping activity), as well as on the number of operating days during the fiscal year.

Article 209-0 B of the French Tax Code (FTC) compiles the requirements to qualify for the tonnage tax regime, which are as follows:

- This regime is applicable to companies that are liable to French CIT.
- Turnover arises from at least 75% of the operation of qualified commercial ships.
- The ship must be seagoing, weigh at least 50 gross tons and be used for the carriage of passengers, transportation of goods, towage, salvage, or other marine assistance or transport in connection with other services of a kind necessarily provided at sea.
- The ship must be strategically and commercially managed in France. Ships flying the French flag are deemed to be strategically and commercially managed in France.
- Ships flying under a European Union (EU) or European Economic Area (EEA) flag must represent at least 25% of the net tonnage of said companies, which must also commit to maintain their ships under such flags during the abovementioned 10-year election period (the 25% requirement applies to shipping companies for fiscal years closing after 27 November 2014).

The ships eligible for the tonnage tax are:

- Ships owned by the operating company, including those chartered out (excluding the bareboat chartered out to third parties or to related parties within the meaning of Article 39-12 of the FTC that did not elect for the tonnage tax regime)
- Ships full-time chartered in (including those that are partially time chartered) and bareboat chartered in by the operating company
- Ships leased through a financial leasing arrangement

Only the profits derived from the operation of those qualifying ships will be eligible for the tonnage tax system. Profits from the operation of other ships will not be covered by the tonnage tax notional profits.

The daily notional profit from the qualifying shipping activities is computed by reference to the net tonnage (NT) of each of the eligible ships operated according to the following table:

<table>
<thead>
<tr>
<th>Total NT</th>
<th>Fixed profit per day per 100 NT (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 1,000</td>
<td>0.93</td>
</tr>
<tr>
<td>1,001-10,000</td>
<td>0.71</td>
</tr>
<tr>
<td>10,001-25,000</td>
<td>0.47</td>
</tr>
<tr>
<td>Over 25,000</td>
<td>0.24</td>
</tr>
</tbody>
</table>
The daily notional profit is then multiplied by the number of days the ship is operated by the company during the year. A similar computation is done for each ship operated. The notional profit of all ships operated is then aggregated to obtain the company’s tonnage tax profit for a given financial year.

The company tonnage tax is grossed up by the following add-backs:

- Waiver of debt, grants and gifts made in favor of the company within the tonnage tax regime by a related company that has not elected this regime
- Income from flow-through entities and other tax-transparent entities, except for joint ownership of vessels under the tonnage tax regime
- Gain arising from the disposal of eligible ships and/or assets used in the operation of such ships but only as far as the gain is related to the time when the ship/asset was used outside the tonnage tax regime
- Gains generated from the step-up of eligible ships and fixed assets used in the operation of the ships
- Gains on capital contributions related to depreciable assets with respect to merger, spin-off or partial business transfer gains that benefit from the favorable merger tax regime
- Interest calculated on the basis of the portion of shareholders’ equity that exceeds twice the amount of the debts of the company increased by (i) the lease payments remaining due at the end of the financial year and (ii) the residual purchase price of the assets leased

The final profit is subject to the standard CIT at a 33.33% rate. In addition, should the CIT due exceed €763,000, a social security surtax of 3.3% is levied on the CIT itself, raising the full tax rate to a maximum of 34.43%.

Further, a 10.7% surcharge\(^1\) (assessed on the CIT due) also applied to enterprises with a turnover exceeding €250m for their fiscal years ending from 31 December 2011 to 30 December 2015. This provision has been repealed as from 1st January 2016.

Specific exemption for foreign companies (Article 246 of the FTC)

As an exception to the principle of territoriality, income arising from a foreign shipping company that performs its activities in France is exempt from French taxation, as long as a similar exemption for French corporations is granted by the considered foreign country (refer to Section 1.3).

Territorial economic contribution (Articles 1447-0, 1586 of the FTC, and Article 317 E of Appendix II to the FTC)

The French Financial Bill for 2010 replaced the business tax in force until 31 December 2009 with the Territorial Economic Contribution (TEC), which is made up of two distinct taxes: the Business Contribution on the Added Value (BVAC) and the Business Contribution on Property (BCP). The TEC is applicable as of 1 January 2010.

Regarding the first tax, shipping companies, which carry out their activity both in France and abroad, are liable to BVAC merely on the portion of the added value arising from operations performed within the French territory. When both loading and unloading occur on French territory, the operations are deemed to be performed within French territory. The share of taxable added value for BVAC computation purposes derived from the French shipping activity is proportional to the ratio resulting from the profits derived from the French shipping activity compared to the total amount of profits. In any case, when the shipping carried on by the company is mainly originating from or destined for France, this taxable part cannot be less than 10% of the total amount of profits realized by the shipowner in relation with its shipping activity.

Regarding the second tax (i.e., BCP), this tax is computed upon the rental value of the goods that are subject to the property tax.

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1. Note that the European Commission (EC) closed on 4 February 2015 its in-depth investigation aiming at determining whether amendments endorsed by France in 2005 regarding minimum ships flying requirements under the tonnage tax regime were compatible with EU states aid rules.

2. The social security surtax of 3.3% is assessed on the portion of the corporate tax due exceeding €763,000 before offsetting the tax credits granted under tax treaties.

3. According to Article 16 of the 2014 Finance Bill, which became effective on 31 December 2013, the surcharge has been increased by 5.7% to 10.7% for fiscal years ending after 31 December 2013.
**Competitiveness and Employment Tax Credit** (French administrative guideline BOI-BIC-RICI-10-150-10)

Shipping companies liable to the French CIT and under the tonnage tax regime are eligible for the Competitiveness and Employment Tax Credit, corresponding to the compensation received by their employees allocated to the activities subject to the French CIT according to the standard rules.

**Value-added tax** (Article 262 II of the FTC)

Supply, repairs, alteration, maintenance, chartering and leasing of seagoing vessels are zero-rated for value-added tax (VAT) purposes, but the vessels have the right of recovery of input VAT should these services be supplied to:

- Commercial seagoing vessels (including leisure boats but only those that are simultaneously commercially registered, commercially operated and manned with a professional crew)
- Vessels used for deep-sea industrial activities
- Vessels used for professional fishing
- Vessels used for assistance and rescue at sea

Companies that are involved in operations of construction, transformation or repair as subcontractors are zero-rated in the same way as the project manager.

The VAT exemption also applies to the aforementioned operations relating to goods aimed to be incorporated in these vessels or used at sea.

Services related to the freight of these vessels (such as loading and unloading) are also zero-rated in most cases. The supply of goods for the fueling and provisioning of warships is likewise zero-rated. The French VAT exemption is, in principle, not applicable to vessels used on international rivers and channels.

In addition, eligible companies need to provide some supporting documentation to have the benefit of the VAT exemption.

When boats or equipment stop being used by shipping lines or professional fishermen or stop being exclusively allocated to seagoing use, the VAT becomes due and is to be paid to the customs authorities.

The international transport of passengers (i.e., traveling to and/or from a foreign country) carried out with seagoing vessels is, in principle, zero-rated, including for the portion of the journey taking place in France.

**Customs**

Customs duties are suspended for goods intended for incorporation in vessels for the purpose of their construction, repair or maintenance and for goods intended for fitting to or equipping such vessels.

On 21 January 2009, the EC adopted an action plan with a view to establishing a European maritime transport area without borders between the EU Member States. In order to reduce costs and delays and increase the competitiveness of maritime transport, this action plan aims at simplifying customs formalities, port reporting formalities and administrative procedures.

### 1.2 Tax facilities for shipowners

**Depreciation and tax losses** (Article 39 C of the FTC)

From 1998 until 2005, France had an efficient tax lease scheme to facilitate French ship purchases. This scheme granted tax relief from 20% to 25% of the investment; it was ruled as state aid by the EC and was therefore repealed. Since then, a new tax lease regime has been enacted that allows shipowners to optimize their asset financing. It applies to leasing agreements entered into as of 1 January 2007. The new regime has been extended to all EU-flagged ships. This regime allows a financial lessor to gain the benefits of ownership through a front loading of capital allowances while the lessee gains the rewards of ownership of that asset. The purpose of such a scheme is to grant tax relief by reducing the amount of the rental for the lessee, namely the charterer. The tax benefit of this regime ranks between 15% and 19% of the investment.

Per Article 39 C of the FTC, in the case where a French tax-transparent entity rents out a ship that is part of its assets, depreciation deduction for tax purposes is capped to three times the amount of rental income.
derived from the renting out of the ship during the first 36 months of the lease.

**Accelerated depreciation (Article 22 of Appendix 2 to the FTC)**

Seagoing vessels may be depreciated over eight years, using an annual depreciation rate of 28.125% for the first five years and 33.33% for the remaining three years (depreciations deductible within the same limits as those described in the above paragraph). As a general rule, the depreciation cannot benefit secondhand goods. However, the French tax authority allows depreciation upon secondhand shipping vessels provided that the length of life retained is eight years for shipping vessels and six years for fishing boats. As a result, a shipping vessel can be depreciated by each of its successive owners (French administrative guidelines BOI-BIC-AMT-20-40-60-10).

The shipping companies can begin depreciation from the end of the fiscal year before the shipping vessel was delivered, provided that the vessel was dry-docked before that date.

In order to support the French economy, depreciation rates were increased for investments made from 4 December 2008 to 31 December 2009. Consequently, seagoing vessels acquired during that period can be depreciated at an annual rate of 34.37% during the first six years and 50% for the following two years.

**Proportional capital gains exemption upon disposal of ships (Article 209 V of the FTC)**

Capital gains and losses arising from the disposal of qualifying ships are reduced in proportion to the period of ownership during which the ship has been operated under the tonnage tax regime over the total period of ownership. The 2014 Amending Finance Act broadened the above capital gain exemption by allowing shipping companies to assess the ownership period as from the date they have started to operate an eligible ship in the event (i) they have acquired shares of a company holding the eligible ship and (ii) acquired said ship through an operation subject to the favorable merger regime. This new rule comes into force for fiscal years closing as from 1st November 2015 (Art.1 Décret n°2015-1377 - 30 October 2015).

In other words, Article 209 V of the FTC leads to a full CIT exemption of the capital gain corresponding to the period of time during which the tonnage tax regime applied.

**Territorial economic contribution**

Shipowners are subject to TEC under the same conditions as shipping companies (refer to Section 1.1). A limited liability company that enters into a financial lease agreement with a shipping company (i.e., the charterer) should be subject to BVAC upon rental income deriving from the lease agreement entered into with the shipping company.

For BCP, the same rules as those described under Section 1.1 will apply to shipowners. As ships should not be subject to property tax, no BCP should be due upon ownership of vessels.

**VAT (Article 262 II of the FTC)**

Refer to Section 1.1.

### 1.3 Tax treaties and place of effective management

France has the broadest tax treaty network in the world (more than 120 treaties). Almost all of them include a specific provision for shipping companies drafted in terms similar to Article 8 of the Organisation for Economic Co-operation and Development (OECD) model tax convention concerning the taxation of profits from the operation of ships in international traffic and provide that the taxing right shall be left to the contracting state in which the place of effective management of the shipping company is situated.

For an exhaustive list of all treaties entered into by France, please refer to EY’s 2016 *Worldwide Tax Guide*.

**Specific shipping income agreement**

Besides these treaties, France has specific agreements on shipping income with Jersey, Venezuela and the Isle of Man.

### 1.4 Freight taxes

There are no freight taxes in France.
1.5 Special vessel registration benefits for the shipowner
Shipowners registering vessels in a French register may benefit from specific exemption from social contributions. French-flagged ships used to be eligible for a fiscal aid scheme for ship purchase (French tax lease). However, the former legislation has been repealed, and the new tax lease regulation theoretically applies to all EU-flagged ships. Registration is usually not a requirement for other income tax facilities.

1.6 Authorized economic operator
In response to increased threats to the supply chain and ever-growing trade volumes, worldwide customs authorities have embarked on a new risk-based approach to customs supervision and inspection. International and EU regulations are being introduced to this effect.

Those companies, especially shipping companies, that meet the requirements will be recognized as trusted parties in the supply chain and can be given access to “green lane” status and ongoing customs simplification procedures as authorized economic operators (AEOs).

An application should be filed with the customs authorities, and they will check whether the applicant is compliant with the AEO requirements. Preparation for the customs authorities’ audit is, therefore, highly recommended.

Reliable and compliant traders will benefit from simplifications in the customs procedures and from facilitation with regard to customs controls relating to safety and security. Secure AEOs may be informed that their consignment has been selected for controls and will get priority treatment for controls. They will also be allowed to submit less data for the pre-arrival/departure declaration and will also be subject to fewer controls, as they are considered secure partners by customs, and their compliance and reliability were thoroughly checked when the AEO certificate was given.

Parties that do not comply with these new regulations carry the risk that their goods will be delayed in the supply chain. Companies that cannot show compliance may also see their business opportunities curtailed.

2. Human capital

2.1 Crew’s nationality
Since 2008, the crew must include a minimal proportion of EU or EEA nationals (L.5522-1 FCTA).

As far as the French International Register (RIF) is concerned, 25% of the crew members of vessels registered must include EU or EEA nationals.

For vessels that benefit from the fiscal aid scheme for ship purchase (French tax lease), this proportion is increased to 35% for the duration of the aid scheme (Article L.5612-3 of the FCTA).

2.2 Employment conditions
French labor law generally applies to French-flagged vessels (Article L.5541-1 of the FCTA). For vessels registered in the RIF, crew members are subject to more or less provisions of the FCTA depending if they reside in France or not (Article L.5612-1 of the FCTA). However, they all come under the disciplinary rules aboard and the intern police of the vessel (Article L.5612-2 of the FTCA).

Two French collective bargaining agreements (CBAs) apply to crew members: the CBA for officers of 30 September 1948 and the CBA for ratings of 30 November 1950. Collective bargaining agreements include various provisions concerning discrimination, working hours, minimum wages, paid vacation, free days and termination allowances.

By exception, if a crew member is placed at the disposal of the shipowner by an authorized maritime manning agency, parties can be subject to the law chosen in the contract.

According to French law, a written individual employment contract between the crew members and the shipowner or ship manager is compulsory, including some mandatory clauses specific to the maritime
employment (Articles L.5542-1 and L.5542-3 of the FCTA).

Crew members can also be placed at the disposal of the shipowner by an authorized maritime manning agency (Article L 5621-1 of the FCTA). In this situation, a written contract of employment must exist between the crew member and the manning agency and a written agreement between the latter and the shipowner (Article L.5621-4 of the FCTA).

Crew members must have a valid medical certificate, whether they are seamen or seafaring people (Article L.5521-1, I. of the FCTA for the seamen; Article L.5549-1, II. of the FCTA for the seafaring people).

They must have followed also a professional formation adapted to their functions. Seamen's formation corresponds to the missions that they will have to assume onboard (Article L.5521-2, I. of the FCTA), while seafaring people formation is minimal (Article L.5549-1, III. of the FCTA).

Some French rules also apply to foreign vessels navigating in France, such as compulsory activity declaration before coasting, crew nationality, workforce number, individual liberties, minimum wage and other provisions applied in the sector concerned as listed in the FCTA (Article L5562-1 and following of the FCTA).

2.3 Social security

Regarding the social welfare, seamen are affiliated to a specific dedicated social security system called ENIM (Article L.5551-1 of the FCTA).

Nevertheless, part of the contributions is collected by the URSSAF of Poitou-Charentes and not by the ENIM (Article L.213-4 of the social welfare code (family allowances, supplementary social security contributions, unemployment insurance premiums, contributions to the wages guarantee fund and contributions for the professional formation of seamen; Article 16 of the law for the financing of the social welfare for 2016).

Employers can benefit from a reduction of social security contributions for seamen hired on a French flagged ship if the latter are affiliated to the ENIM pension scheme (Article L.5553-7 of the FCTA ; L.241-13 of the social welfare code; Decree n°2004-821 of the 18 August 2004; Article D.711-10 of the social welfare code).

On principle, seamen are affiliated to the social security system of the ship's flag. But if a seaman working aboard a member State flagged ship is paid by a company located in another member State where he lives, he will be affiliated to the social security system of the latter (Article 11§4 of the EU regulation n°883/2004).

In case of substantial activity in two or more EEE/Switzerland States, seamen are affiliated in their country of residency provided they perform substantial activity in this country: 25% of working time or remuneration (Article 13§1, a, of the EU regulation n°883/2004), and if not:

- In the country of the head office if they are employed by only one company (Article 13§1, b, i) of the EU regulation n°883/2004), or if the various employers have their head office in the same member State (Article 13§1, b, ii) of the EU regulation n°883/2004), or if they are employed by two or more companies in at least two different member States of which one is the State of residency (Article 13§1, b, iii) of the EU regulation n°883/2004)

- In their country of residency if their employers are from multiple EEA/Switzerland States different from the member State of residency (Article 13§1, b, iv) of the EU regulation n°883/2004) or if their employers are established in a non EEA/EU member State (Article 14, §11 of the EU regulation n° 987/2009).

Regarding seafaring people, they will be affiliated to the general welfare system if they are not already covered by the welfare system of another EU or EEA State (Article L.311-3, 34° of the social welfare code in addition to Article 11§4 of the EU regulation n°883/2004).

2.4 Personal income tax exemptions for seafarers

The crew members who have their fiscal residence in France and who sail aboard vessels registered under the RIF receive full tax exemption on the portion of wages corresponding to their non-French activity, provided they spend at least 183 days outside France (weekends, days off and holidays attributable to foreign activity.
are taken into account even if spent in France) over any consecutive 12-month period and establish paying non-French income tax equal to at least two-thirds of the equivalent French tax (Article 81 A I of the FTC). In the event those requirements are not fulfilled, the crewmembers who have their fiscal residence in France can benefit from the provisions of Article 81 A II of the FTC that exempts supplemental amounts, contractual bonuses or per-diems earned for foreign duty. These exemptions are limited to a maximum of 40% of the remuneration corresponding to their non-French activity. However, the above-listed compensation exempted from French income tax is taken into account to determine the effective rate of taxation applicable to remaining taxable income (Article 197 C of the FTC).

Another five-year-length specific exemption (listed under Article 155B of the FTC) on supplemental earnings and compensation corresponding to the non-French activity may benefit to crewmembers who establish residency in France and justify: not having been French tax residents in the five years preceding their arrival in France, and reporting professional earnings at least equal to the applicable “reference salary.” They also benefit from a 50% tax exemption for their foreign source dividends, interest and capital gains during the period they work abroad.

3. Corporate structure

3.1 Most commonly used legal structures for shipping activities

In the case where a ship is financed by a single operator (other than a shipping company), the most commonly used legal structure when acquiring the ship is the limited liability company entering into a financial lease agreement with the shipping company (i.e., the charterer). This structure could allow, in some circumstances, a significant reduction in the effective tax rate of the shipowner associated with its rental income.

In the above scenario, the single operator shall strongly consider the application of Article 39 C of the FTC (refer to Section 1.2), the French parent-subsidiary regime (refer to Section 3.2) and the French tax capital gain regime applicable to shareholding disposal.

On the other hand, in the case where a ship is financed by several operators including, inter alia, the charterer carrying out the shipping activities under the tonnage tax regime (refer to Section 1.1), tax-transparent structures (e.g., partnerships, limited partnerships) are often preferred to limited liability companies to further reduce the charterer’s effective tax rate (in addition to tax effects reached under the aforementioned developments for shipowners).

For shipping companies on a stand-alone basis, the most commonly used legal structure is the limited liability company, which is subject to CIT at a maximum rate of 38%. However, in the case where they are engaged in qualifying shipping activities, shipping companies may elect taxation according to the tonnage tax regime (refer to Section 1.1). In this context, at the time of designing the current tonnage tax regime, the French tax administration has estimated that the tax benefit associated with the special regime should approximately correspond to half of the standard CIT.

3.2 Taxation of profit distribution

Under the French parent-subsidiary regime, dividends received by French companies or French branches of nonresident companies are exempt from CIT, except for a 5% (or 1% in a tax consolidated group) share of expenses, which is computed on the gross dividend income (net dividend income and foreign tax credits) and added back to the recipient’s taxable income.

The participation exemption regime applies if the recipient holds 5% or more of the share capital (voting and financial rights) of the distributing company for at least two years.

In general, a 30% withholding tax is imposed on dividends paid to nonresidents. It is increased to 75% for dividends paid to a resident of a noncooperative state or territory. This withholding tax may be reduced or
eliminated by tax treaties. In addition, under the EU Parent-Subsidiary Directive (90/435/EEC), dividends distributed by French subsidiaries to EU parent companies are exempt from withholding tax, if, among other conditions, the recipient holds 5% or more of the shares of the subsidiary for at least two years.

4. Grants and incentives

4.1 Specific and/or general subsidies available to shipping companies
France provides a range of general grants, subsidies and incentives compliant with EU law on state aid and are available to shipping companies provided they comply with the qualifying conditions.

Law n°2009-967 of 3 August 2009, relating to the implementation of the Grenelle Environment Project, provides an aid scheme for the operation of regular combined transport services of goods for the period from 2013 to 2017. It was approved by the EC on 19 June 2014. This support program is intended to promote the establishment and development of combined transport services to contribute to the objectives of the ecological transition. Combined transport is a transport system that combines the road mode with other modes, such as inland waterways, rail or the short sea shipping. Beneficiaries are the operators of combined transport services, or freight forwarders, their business being one of the links in the logistics chain. It is a flat-rate aid per intermodal transport unit (containers, semi-trailers, trailers) involved with a land or port terminal located on the French Metropolitan territory and integrated in a transport chain, including a pre- and post-road routing to the ends of the main link.

4.2 Investment incentives for shipping companies and the shipbuilding industry
Certain operations corresponding to a first application of new technologies, new processes or innovating systems could be supported in order to cover a part of the risks and often a part of the investments.

4.3 Major changes in shipping subsidy legislation anticipated in the near future
No major changes are anticipated. If there are any changes, they will be in accordance with EU legislation and will not contravene EC guidelines on state aid.

5. General information

5.1 Infrastructure

5.1.1 Different legal status of ports
Since 2007, maritime ports are classified into the following two categories:

- The major ports (Grands Ports Maritimes):
  The major ports, listed in order of total tonnage, highest to lowest, are: Marseille-Fos, Le Havre, Dunkerque, Nantes Saint-Nazaire, Rouen, Bordeaux and La Rochelle. Since 2013, there are four new major ports: Guadeloupe, Guyane, Martinique and Réunion. The major ports are State’s public establishments and carry out the function of port authority.

- The “decentralized” ports:
  Since 2007, autonomous ports and ports of national interest were transferred to territorial agencies. The territorial agency carries out the function of port authority. Nevertheless, police powers of the harbor master’s office are still under the State’s responsibility.

5.1.2 Port facilities
The following support facilities are available:

- Maintenance and repair
• Docking
• Storage
• Cranes for every size of vessel

5.1.3 Support services for the shipping industry
The following support services are readily available:
• Banks with a shipping desk
• Consulting firms specializing in shipping
• Maritime law services
• Insurance brokers for the shipping industry

5.1.4 Maritime education
Maritime education and training institutions for the merchant marine are the following:
• ENSM Le Havre (for first-class, dual-purpose officers - up to the master and chief engineer unlimited certificate): https://www.supmaritime.fr/en/about-us/ensm-le-havre-campus.html
• ENSM Marseille (also for first-class, dual-purpose officers - up to the master and chief engineer unlimited certificate): https://www.supmaritime.fr/en/about-us/ensm-marseille-campus.html
• ENSM Saint-Malo (for deck or engine officers, up to unlimited certificates): https://www.supmaritime.fr/en/about-us/ensm-saint-malo-campus.html
• ENSM Nantes (also for deck or engine officers, up to unlimited certificates): https://www.supmaritime.fr/en/about-us/ensm-nantes-campus.html

Maritime education and training colleges for ratings are the following:
• Bastia – www.lyceemaritimebastia.fr
• Boulogne – lyceemaritime-boulogne.com
• Ciboure – lycee-maritime-ciboure.fr
• Concarneau – cefcm.fr
• Etel – lpma-etel.fr
• Fécamp – http://www.lycee-anita-conti-bruz.ac-rennes.fr/
• La Rochelle – lycee-maritime-larochelle.com
• Le Guilvinec – lycee-maritime-guilvinec.com
• Lorient – cefcm.fr
• Nantes – lycee-maritime-nantes.fr
• Saint-Malo – lycee-maritime-saint-malo.fr
• Sète – lyceedelamer.fr

5.2 Registration
France has several shipping registers: the standard French Shipping Register, the RIF, the French Austral and Antarctic Territories (TAAF or Kerguelen) Register, the French Polynesian Register, the New Caledonian Register, and the Wallis and Futuna Register.

To be registered in a French register, at least 50% of a vessel must be owned by a company established in France or in one of the EU Member States or one of the EEA Member States. Other vessels must be managed and controlled from a permanent establishment located in France. Similarly, foreign vessels bareboat chartered must be managed and controlled from a French permanent establishment during the bareboat charter period (Article 219 2 A and B of the French Customs Code).

The RIF is the most attractive French register. The RIF was implemented in 2005 to replace the TAAF for the French merchant fleet and to compete with the international shipping registers set up by the other EU Member States. Unlike the TAAF, the RIF is an EU registry. Ships registered in the RIF are subject to safety and security, certification and training, health and safety at work, and environmental protection rules applicable
as per French law, European regulations and French international commitments.
The vessels that may be registered in the RIF are (Article L5611-2 of the FCTA):
- Vessels employed in deep-sea trades or international cabotage
- Commercially operated leisure vessels over 24 meters in overall length, manned with a professional crew

The registration is simplified by the implementation of a unique entry point (Guichet Unique) in Marseille, which handles all questions from shipowners of vessels registered in the RIF. For further information, contact:

Guichet unique du Registre International Français (RIF)

5 place de la Joliette
13002 Marseille
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04 26 84 57 62 ou 63
rif@equipement.gouv.fr
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Germany

1. Tax

1.1 Tax facilities for shipping companies

The taxable income of a shipping company can be determined either according to regular taxation rules or, at the company’s option, under the German tonnage tax regime. The tonnage tax regime can be elected by shipping companies of any legal form — for example, corporations or partnerships — and is also available for individual investors. It offers a flat taxable income regardless of the actual profit generated.

Regime applicable if a shipping company has not opted for tonnage tax

Shipping companies not opting for the tonnage tax regime are subject to regular taxation. The capitalized acquisition cost, less anticipated scrap value, can be depreciated in general on a standard straight-line basis over 12 years. Accelerated depreciation is possible for vessels acquired after 31 December 2008 and before 1 January 2011. In the acquisition of used vessels, a shorter depreciation period may apply. On the other hand, certain vessels, like liquid natural gas (LNG) tankers or cruising vessels can have a longer expected life.

Regime applicable if a shipping company has opted for tonnage tax

Shipping companies have the opportunity to choose a special tax regime instead of being taxed in accordance with the German standard tax rules. Companies with income generated from the operation of merchant ships in international traffic may, upon irrevocable application, opt for the tonnage tax regime. Under the tonnage tax regime, the taxable profit is determined on the basis of the net tonnage of the ship and the number of operating days during the fiscal year. This tonnage tax profit is subject to federal income tax or corporate income tax and to municipal trade tax. In addition, the solidarity surcharge on income tax or corporate tax, respectively, applies.

Section 5a of the German Income Tax Act lists four basic requirements to qualify for the tonnage tax regime:

• Business with a place of management in Germany
• Operation of merchant ships in international traffic, registered in a German ship register (flying the German flag is not required; to a certain extent, chartered-in vessels may not be registered in Germany)
• At least one owned ship meeting the conditions mentioned above
• Ship management carried out in Germany
• Irrevocable application

Companies that opt for the tonnage tax regime must have their place of effective management in Germany. According to the German tax authorities, this is the place where the important, shipping-related management decisions (e.g., charter and freighting of the vessel, negotiation of bunker and oil contracts, manning) are made.

The commercial and technical management of the vessel has to be carried out entirely in Germany. However, the tax authorities do accept recruitment of ranks outside Germany. It is necessary that the essential operations of ship management are almost exclusively performed in Germany.

Merchant ships are considered to be operating in international traffic if the following conditions are satisfied:

• The vessel must be registered in the German Shipping Register for most of the shipping company’s financial year. However, it is not explicitly required that vessels fly the German flag or a European Union (EU) flag. Under special circumstances, vessels chartered in are exempt from this registration requirement.
• The tonnage tax regime applies regardless of the ownership of the vessel. The shipping company can perform its shipping activities with its own or with chartered vessels. If the chartered vessels of the operating company are not registered in Germany, the tonnage tax regime only applies if the gross tonnage of the chartered ships does not exceed the gross tonnage of the vessels owned by the shipping company by 300%.
The qualifying vessels have to be operated in international traffic for most of the shipping company's financial year. International traffic means transportation of passengers or goods between domestic and foreign ports, between foreign ports or between a foreign port and the high sea. According to the Hamburg tax authorities, this criterion is also met if the ship is laid up for more than a half year and could directly have been operated. However, since this is only an unofficial statement of the tax authorities a binding ruling is recommended.

The shipping company has to submit an official application order to opt for the tonnage tax regime. Companies that have ordered their ships after 31 December 2005 can only opt for tonnage tax at the beginning of the vessel's deployment. If the application is not made at this point in time, the application is only possible again after a 10-year period. Once approved, the application will bind the shipping company for a period of 10 years.

The annual taxable profit for each ship is deemed to be equal to the following flat rates for every 100 net tons per day of operation:

<table>
<thead>
<tr>
<th>Total net tonnage (NT)</th>
<th>Fixed profit per day per 100 net tons (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 1,000</td>
<td>0.92</td>
</tr>
<tr>
<td>1,001-10,000</td>
<td>0.69</td>
</tr>
<tr>
<td>10,001-25,000</td>
<td>0.46</td>
</tr>
<tr>
<td>Over 25,000</td>
<td>0.23</td>
</tr>
</tbody>
</table>

According to the German tax authorities the days of “warm” lay-ups of vessels are also seen as operating days since the ship could have been directly used in international traffic.

Opting for the tonnage tax regime can lead to an effective tax rate of approximately 1% to 10% of the net income of profitable ships with good freight or charter rates. However, tax has also to be paid in loss-making years, so that in the current difficult market environment some shipowners operate loss-making vessels under the standard tax regime.

The option to switch to the tonnage tax regime must be declared in the first year of operation for the first newly acquired vessel and applies to the entire business of the relevant taxpayer. In case a company opts for the tonnage tax at a later time, 10 years after the first year of operation would have been possible, the difference between assessed book value and fair market value of all assets of the shipping company will be assessed as positive or negative hidden revenue. When switching back to the regular taxation system after 10 years or later, the difference amount is regarded as income in the subsequent five financial years of the shipping company. If the return to regular taxation happens, the mentioned difference is generally subject to tax in the year of disposal. For shipping companies that have applied from the beginning of the vessel's deployment, no difference amount will be assessed.

Ship management companies participating in partnerships operating one or more of their own vessels under German tonnage tax can benefit to a certain extent concerning their service income. However, this benefit is limited to the amount of 4% of the gross cargo rate. Exceeding fees are taxed according to the standard regime.

**Tax rates**

The tonnage tax profit as well as the standard tax profit is subject to tax at the following rates:

- Corporate income tax: 15% plus 5.5% solidarity surcharge on the corporate tax amount
- Income tax: Up to 45% plus 5.5% solidarity surcharge on the income tax amount
- Municipal Trade Tax, varying between 9.6% and 18.2%.

**Value Added tax (VAT)**

Income from the charter or lease of seagoing ships is exempt for VAT purposes, as is the supply of services and goods to such vessels. The tax exemption is only applicable if the beneficiary is an operator of a seagoing
ship. Therefore, sales to agents or shipbrokers on an upstream trade level are subject to VAT and not tax-exempt. Exceeding fees are taxed according to the standard regime.

1.2 Tax facilities for seafarers
A factor in favor of hiring seafarers at local labor conditions is that a shipping company may keep 40% (after an expected law amendment in mid-2016, this rate will raise up to 100%) of the regular payroll tax from the seafarers’ wage payment to its own benefit if the following conditions are satisfied:

- The seafarers must have worked for more than 183 consecutive days on ships owned or chartered by the employer (after an expected law amendment in mid-2016 this precondition will be dropped).
- The ship has to be registered in the German Shipping Register and fly the German flag.
- The ship is in operation for transporting goods or passengers between or to foreign ports or from a foreign port to the main sea.

1.3 Tax treaties and place of effective management
Germany has concluded more than 90 treaties that are predominantly based on the Organisation for Economic Co-operation and Development (OECD) model tax convention. The German double tax treaties allocate the right to tax shipping income either to the state of effective management or to the state of residence of the shipping company.

As of January 2016, Germany has a tax treaty with the following countries:
Algeria, Albania, Argentina, Armenia, Australia, Austria, Azerbaijan, Bangladesh, Belarus, Belgium, Bolivia, Bosnia-Herzegovina, Bulgaria, Canada, China, Croatia, Costa Rica, Cyprus, Czech Republic, Denmark, Ecuador, Egypt, Estonia, Finland, France, Georgia, Ghana, Greece, Hungary, Iceland, India, Indonesia, Iran, Ireland, Italy, Ivory Coast, Jamaica, Japan, Jersey, Kazakhstan, Korea (South), Kosovo, Kenya, Kuwait, Kyrgyzstan, Latvia, Liberia, Liechtenstein, Lithuania, Luxembourg, Macedonia, Malaysia, Malta, Mauritius, Mexico, Moldova, Mongolia, Montenegro, Morocco, Namibia, Netherlands, New Zealand, Norway, Pakistan, Philippines, Poland, Portugal, Romania, Russian Federation, Serbia, Singapore, Slovak Republic, Slovenia, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Syria, Tajikistan, Thailand, Trinidad and Tobago, Tunisia, Turkey, Turkmenistan, Ukraine, United Arab Emirates, United Kingdom, United States, Vietnam, Uruguay, Uzbekistan, Venezuela, Zambia, and Zimbabwe.

Besides these treaties, Germany has specific agreements on shipping income with the following jurisdictions:
Brazil, Chile, China, Columbia, Hong Kong, Isle of Man, Paraguay, Saudi Arabia, Yemen and Venezuela.

The agreement with the former Yugoslavia remains applicable to all states that were geographically included in Yugoslavia until said states sign a new agreement on shipping income.

1.4 Freight taxes
The following rule applies to nonresident shipping companies: In case of accessing German harbors, 5% of the freight costs are deemed to be taxable income and are subject either to German income tax in the case of individuals or partnerships or to German corporate tax in the case of corporations. Furthermore, freight tax also applies to German branches of foreign shipping companies. This rule does not apply if a mutual tax treaty has been concluded or in case of reciprocity in connection with the stipulation of innocuousness (i.e., a tax exemption from freight tax) by the German ministry of transport.

1.5 Special vessel registration tax benefits for the shipowner
To benefit from the tonnage tax regime, the vessel has to be registered in the German Shipping Register. For the wage tax benefit, the vessel has to be registered in the German Shipping Register and has to fly the German flag.

\[\text{Status: January 2016}\]
\[\text{Status: January 2016}\]
2. Human capital

2.1 General information on German maritime employment situation

In Germany a so-called Maritimes Bündnis (maritime alliance) has been established, consisting of the German government, coastal counties of Germany and unions, aiming at facilitating employment and education on German vessels, plus countering the trend of German shipowners to fly foreign flags of convenience by, for example, financial support as subsidizing ancillary wage costs as well as the employer’s wage tax retention or supporting apprenticeships on German vessels. The Foundation “Stiftung Schiffsstandort Deutschland” also subsidizes apprenticeship and advanced education on vessels flying the German or EU flag.

On 1 August 2013 the German Maritime Labour Code (Seearbeitsgesetz) came into force, implementing the tenors and objectives of the 2006 Consolidated Maritime Labour Convention of the International Labour Organization (MLC), which sets forth numerous minimum standards for working and remuneration conditions.

The law is tailored to apply to all employees working on board a vessel, including the captain and employees not working for the shipowner. It covers the following issues: general provisions; minimum requirements for work by crew members on ships; conditions of employment; vocational training on board; accommodation and recreational facilities; food and catering; safety and health protection at work; medical care and social care; order on board and right of complaint; certificates and responsibility of the flag state; requirements of ships flying a foreign flag and the responsibility of the port state; enforcement of working and living conditions; and provisions on penalties and fines (as well as final and transitional provisions).

As a consequence of the Maritime Labour Code, the former German Seafarer´s Act (Seemannsgesetz 1957-2013) expired. On one hand, some of the provisions and regulations of the Seafarer’s Act can still be found in the Maritime Labour Code. Germany always held a high standard on regulations and provisions concerning the seafarer’s rights. Some innovations, not only regarding general working conditions have been implemented (e.g. the provisions for vacation entitlement and termination of the employment relationship), but also regarding administrative requirements (e.g. changes in official authorities and the introduction of a new system of service certification for active times at sea by the shipowner as well as a seafarer’s identity document and therefore the abandonment of the traditional seaman’s record book). Also the visa requirements for the employment of non-EU-Seafarers on vessels flying the German flag have been abandoned.

The past system of flag state and port state controls is extended to the control of crew members’ working and living conditions while at the same time monitoring the compliance with the regulations of STCW (see section 4.2.2) and the ISM-Code (International Safety Management Code) by regular as well as unannounced inspections. Responsible authority is the German Employer’s Liability Insurance Association for Transport – Ships Safety and Security bureau (BG Verkehr – Dienststelle Schiffssicherheit/See-Berufsgenossenschaft) with legal authority as of a higher federal agency. Shipowners of ships of 500 gross tons (GT) and more that are engaged in international voyages are, after inspection, thus certified by this authority with a Maritime Labour Certificate (Seearbeitszeugnis) and a Declaration of Maritime Labour Compliance (Seearbeits-Konformitätserklärung), stating that they comply with all MLC requirements. Vessels from states that have not yet ratified the MLC are required to provide similar minimum standards for working and living conditions on board, as well as states that have already ratified it.

2.2 Applicability of national labor law

As a general rule, German labor law applies mandatorily to vessels flying the German flag. However, in extraordinary cases, German law may also apply to ships flying a different flag. The general rules of Regulation (EC) No 593/2008 of the European Parliament and of the Council of 17 June 2008 on the law applicable to contractual obligations (Rome I) have to be considered (Articles 8 and 9). Also, if the vessel flies the German flag but is registered in the German International Shipping Register (GIS - Zweitregister),
German labor law does not necessarily apply to foreign crew members with residence outside Germany despite the vessel flying the German flag. Registering in the GIS is voluntary and additional to the mandatory registration in a shipping register at the district court of the home port. This GIS was instituted to prevent further outflagging as is flying flags of convenience for economic reasons only and mostly due to the applicability of German Seafarer’s Acts high standards.

2.3 Formalities and regulations on hiring and employing personnel

For vessels flying the German flag, the National Regulation for Safe Manning (Schiffsbesetzungsverordnung) is applicable. With regard to this regulation, the captain of a ship that is registered in the German Shipping Register and flies the German flag must be a European Union citizen and hold a valid German certificate of his qualification to command a ship or an equivalent recognized foreign certificate. The minimum number of German/EU national and qualified officers, mechanics and crew members that must be employed on board the vessel depends on the gross tonnage and ranges from one officer to one officer, one mechanic and one additional crew member (respectively two for larger vessels).

In this context also specific obligations regarding qualifications requirements and the hiring process of crew members in accordance with Seafarer’s Ability Regulations (Seeleute-Befähigungsverordnung), e.g., mandatory presentation of a certificate of ability which combines prove of ability regarding their health conditions and technical qualifications (Befähigungszeugnis).

For verifying compliance with these regulations the shipowner has to apply for a manning certificate (Schiffsbesatzungszeugnis). This certificate is also issued by the See-Berufsgenossenschaft.

2.4 Collective labor agreements

The collective labor agreements (MTV-See and HTV-See) between the relevant union, the United Services Union (ver.di, an independent, individual trade union) and the German Ship-owners’ Association (VDR) were updated with effect from 29 September 2010 (MTV-See) and in 2013 (increase of the standard wages and benefits for all registers with effect as of 1 July 1, 2013, HTV-See). Some shipping companies have negotiated special conditions. Those agreements are also applicable if the seafarer’s employment contract refers to them.

On vessels flying the German flag, two separate committees representing the employees can exist: the Ship’s Committee (Bordvertretung) and the Fleet Works Council (Seebetriebsrat) (see sections 114, 115 and 116 of the German Works Constitution Act (Betriebsverfassungsgesetz)):

• A Ship’s Committee has the function of a “usual” Works Council towards the captain. A Ship’s Committee shall be established on board every ship that normally has five crew members with voting rights, including three who are eligible.

• A Fleet Works Council shall be elected in fleets. The person in charge with regard to the Fleet Works Council is the shipowner. It represents all crew members of a shipping fleet (a shipping fleet within the meaning of the German Works Constitution Act shall be deemed to comprise all ships operated by one shipping company).

• Even though the Ship’s Committee and the Fleet Works Council are regarded as two independent bodies with different functions, the Fleet Works Council is the superordinate body with regard to the Ship’s Committee. If disputes cannot be solved on the level of the Ship’s Committee, they will be negotiated again before the Fleet Works Council.

2.5 Treaties relating to social security contributions

Vessels that fly the German flag build the domestic place of employment for the crew members (see sec. 10 German Social Security Code IV [Sozialgesetzbuch IV]). That means the German regulations for social security are applicable (principle of territoriality). This basic rule counts for all crew members of all nationalities notwithstanding the applicability of German labor law regulations (see 2.2).

Economic Area (EEA). An activity as an employed or self-employed person normally pursued on board a vessel at sea flying the flag of a member state shall be deemed to be an activity pursued in the said member state. However, a person employed on board a vessel flying the flag of a member state and remunerated for such activity by an undertaking or a person whose registered office or place of business is in another EU member state shall be subject to the legislation of the latter member state if he or she resides in that member state (Article 11 Subsection 4 of Regulation (EC) No 883/2004).

Basically, neither this EC regulation nor German social security regulations apply for vessels flying any other flag (no local or EC member state place of employment). However, there might be exemptions because of existing bilateral agreements regarding social security. As of January 2016, Germany has concluded bilateral treaties on this behalf with the following countries: Australia, Bosnia-Herzegovina, Brazil, Canada and Quebec, Chile, China, Croatia, India, Israel, Japan, Korea (South), Kosovo, Macedonia, Montenegro, Morocco, Serbia, Tunisia, Turkey, the United States of America and Uruguay.

Agreements with the Russian Federation, Ukraine, Argentina and the Philippines are negotiated or already signed but not yet in force.

In addition to the above, it is important to keep the rules concerning the secondment of personnel (Arbeitnehmer-Entsendegesetz) in mind. With regard to Germany, these rules also apply to seafarers. They could be important if the employer is German.

2.6 Manning issues with flying the German flag

German shipowners or suppliers can apply to fly certain foreign flags even if a vessel is registered in Germany, so-called Outflagging (see 2.2). The permit to fly a foreign flag is generally granted for two years. It will only be granted if the applicant (shipowners or suppliers) primarily proves, that all disadvantages for Germany as shipping location caused by flying a foreign ship are compensated (for details see section 7 of the German Flag Act (Flaggenrechtsgezsetz)) or secondarily by paying a compensation fee (Ablösebetrag) to the Foundation Stiftung Schifffahrtsstandort Deutschland (see 2.1). As a rule, German shipowners only fly the German flag when it is economically reasonable, e.g., the associated tax benefits exceed the additional costs. Additional costs mostly consist of crewing expenditures and those in particular of social security contributions. Also, when flying the German flag, non-EC crew members in principle need a working permit.

3. Grants and incentives

3.1 Shipbuilding and innovation – toward a sustainable and competitive shipping industry

Subsidies for innovative research, development and innovation (R&D&I) activities may be available to the shipbuilding industry, depending on the facts of the planned project and the planned level of technical innovation as well as on the size of the applicant (small, medium or large enterprise). Next to R&D&I incentives also incentives for investment projects and human resources are available if the corresponding conditions are met.

3.1.1 German funding programs

For example, the federal funding initiative New Generation Maritime Technologies (Maritime Technologien der nächsten Generation) particularly aims at supporting special projects in the maritime sector. The program supports innovation projects in the maritime sector in four different categories: ship engineering, production of maritime systems, shipping and ocean engineering. The maximum funding amounts to 50% of eligible costs for industrial enterprises and to 100% for universities and research institutes.

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3 As of January 2016
4 For a distinguished definition of small and medium enterprises, please refer to the OJ of the EU No. L 124, 20 May 2003, p. 36
5 German guidelines for the New Generation Maritime Technologies as of May 2011 (Richtlinie zur Maritime Technologien der nächsten Generation vom Mai 2011) - extended for addional two years.
Note: German R&D&I subsidies need to comply with EU framework legislation concerning state aid for R&D&I. EU framework legislation changed as of 1 July 2014, new German R&D&I funding programs will be based on the new EU framework or the General Block Exemption Regulation (GBER). Which EU provisions are relevant depend on the facts of the case and therefore need to be determined on a case-by-case basis. There is no legal entitlement to receive funding.

### 3.1.2 European funding programs Horizon2020 and Connecting Europe Facility

Horizon2020 supports projects that aim to achieve a European transport system that is resource-efficient as well as climate- and environmentally-friendly. The shipping industry may be eligible for funding in the area of smart, green and integrated transport.

Horizon2020 also supports waterborne transport systems if they contribute to the optimal use of energy resources and the minimization of environmental impacts such as pollutant and greenhouse gas emissions.

In addition to Horizon2020, the Connecting Europe Facility (CEF) program is a European funding instrument to promote growth, jobs and competitiveness through targeted infrastructure investment at European level. Furthermore, the Connecting Europe Facility for Transport is the funding instrument to realize European transport infrastructure policy. It aims at supporting investments in building new transport infrastructure in Europe or rehabilitating and upgrading the existing one. Specifically the Call for Motorways of the Seas (MoS), with an available funding of €150 million or the River Information Services (RIS), with a funding of up to €10 million are possible ways of funding.

The Connecting Europe Facility (CEF) program includes a European instrument aimed at supporting the development of a high-performing, sustainable and efficiently interconnected trans-European network in the field of transport (TEN-T), focusing on projects that build missing cross-border links between different parts of the EU. The promotion of long-distance, short sea and inland shipping as a sustainable mode of transport is among the priorities of TEN-T. The TEN-T encompasses the inland waterway network and inland ports, seaports and motorways of the sea.

Furthermore, there are also German incentives regarding bi- or intermodal handling plants.

### 3.2 Regional state aid for investments

According to the European Commission’s Regional Aid Guidelines for the period 2014-2020 (RAG) the shipbuilding industry is eligible for regional state aid.

Under the RAG the maximum possible funding is dependent on the region where the investment takes place and the size of the applicant. Significant parts of the German coastal areas have been identified as economically underdeveloped regions and are therefore eligible for regional state aid.

The maximum permissible aid intensities in Germany generally range from 10% to 15% of the capital expenditure. SMEs (small- and medium-sized enterprises according to the definition of the European

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6 OJ 2014/C 198/01.
12 German guidelines on the financing of environmental protection measures relating to inland waterway and maritime transport infrastructure as of 23 November 2011 (Richtlinie zur Förderung von Umschlaganlagen des Kombinierten Verkehrs nichtbundeseigener Unternehmen (KV) vom 23. November 2011) - extended until 31 December 2016.
Commission)\textsuperscript{15} may receive an additional top-up of up to 15%.

According to the RAG, funding is available for investments in the extension of the capacity of an existing establishment (SMEs only) or the setting up of a new establishment and investments in favor of new economic activities (all enterprises).

Note: One of the main preconditions for investment funding is that the implementation of the investment project should result in the creation of new jobs or the safeguarding of existing jobs for a period of at least five years\textsuperscript{16}.

The RAG serve as framework legislation, which require implementation on national federal and regional level. German federal and regional implementing legislation relates to the RAG and to the specific requirements of the General Block Exemption Regulation\textsuperscript{17}. Which provisions are relevant depend on the facts of the case and therefore need to be determined on a case-by-case basis. There is no legal entitlement to receive funding.

3.3 Incentives for employment

It is in the interest of the EU to ensure its competitiveness in the maritime sector as well as to protect and support the employment of European seafarers. Germany supports the EU Community's maritime interest by providing funds for the reduction of nonwage labor costs. International shipping companies whose vessels are registered under the flag of Germany and are wholly owned by natural persons or legal entities of the EEA are eligible to receive grants for crew members who are EU citizens or citizens of European Free Trade Association (EFTA) states. Depending on the size of the ship and the position occupied by the employee aboard the ship, grants may range between €9,400 and €16,700 per crew member\textsuperscript{18}.

The German foundation "Stiftung Schifffahrtsstandort Deutschland"\textsuperscript{19} supports German enterprises that offer professional training and further education to sailors and captains to ships running under the flag of a country of the EU. The funding amounts to a maximum of up to €9,500 per quarter for up to five years. Furthermore, German tax law provides for the possibility of a wage tax reduction for employers of seafarers (see section1.2)\textsuperscript{20}.

Germany supports the creation of training positions on vessels flying the flag of an EU member state. The guidelines for training positions (Richtlinie zur Ausbildungsplatzförderung in der Seeschifffahrt) have been extended until 31 December 2019\textsuperscript{21}.

3.5 Issues with flying the German flag

With regard to grants, there are no issues with flying the German flag, other than those mentioned in section 3.3.

4. General information

4.1 Infrastructure

4.1.1 Major ports

The major ports are:

\textsuperscript{15} For a distinguished definition of small and medium enterprises, please refer to the OJ of the EU No. L 124, 20 May 2003, p. 36.

\textsuperscript{16} Investment projects may also qualify for funding, if the the investment volume exceeds the depreciation value of the last three years by at least 50%. However, generally funding authorities apply this funding criterion restrictively and typically require the creation/maintanence of jobs instead.

\textsuperscript{17} Commission Regulation 651/2014 of June 17 2014, OJ L 187.

\textsuperscript{18} German guidelines on the reduction of non-wage labour costs in German maritime shipping as of November 2012 (Richtlinien zur Senkung der Lohnnebenkosten in der deutschen Seeschifffahrt, 9 November 2012, in its version of 28 March 2013).

\textsuperscript{19} http://www.stiftung-schifffahrtsstandort.de/foerderung/.

\textsuperscript{20} § 41 a para. IV German Income Tax Act ("Einkommenssteuerregelung").

\textsuperscript{21} Guidelines for the promotion of apprenticeship positions (Richtlinie zur Ausbildungsplatzförderung in der Seeschifffahrt) as of 6 October 2015.
• Bremen/Bremerhaven (including the Jade-Weser Port, which is a deep water harbor and independent from tide)
• Emden
• Hamburg
• Lübeck
• Rostock
• Wilhelmshaven

4.1.2 Port facilities
The following facilities are available in particular, although the list is not exhaustive:
• Maintenance and repair
• Dry-docking, docking
• Storage, logistic services of all kinds
• Free trade zones
• Cranes for every size of vessel

4.1.3 Airports close to the major ports
Airports close to the major ports are:
• Bremen Airport (Bremen/Bremerhaven, Wilhelmshaven, Jade-Weser-Port)
• Hamburg Airport (Hamburg, Lübeck)
• Lübeck Airport (Hamburg, Lübeck)
• Rostock-Laage Airport (Rostock)

4.1.4 Support services for the shipping industry
All shipping industry services are readily available, in particular but not limited to the following:
• Banks with a shipping desk
• Consulting firms specializing in the shipping industry
• Maritime law services
• Shipping industry insurance brokers and loss adjusters

4.1.5 Maritime education
The following are maritime education and training institutions for the merchant marine:
• Bremen University of Applied Sciences (industrial engineer for ship construction and maritime traffic, nautical science, shipping and charting)
• Bremerhaven University of Applied Sciences (engineer for ship operating technology, maritime technologies, cruise tourism management)
• Cuxhaven Public Navigation School (for first-class, dual-purpose officers – up to master and chief engineer, unlimited certificate)
• Elsfleth/Leer University of Applied Sciences Oldenburg/Ostfriesland/Wilhelmshaven (master mariner – nautical science, maritime traffic, maritime management)
• Flensburg University of Applied Sciences (B.Sc. maritime traffic, nautics and logistics; engineer for ship operating technology; ship mechanical engineering)
• Flensburg Navigation School (for first-class, dual-purpose officers – up to master and chief engineer, unlimited certificate)
• Warnemünde University of Wismar Department of Maritime Studies (navigation/maritime logistics, ship's operation technology, installation engineering and supply engineering)

Maritime education and training colleges for ratings are the following:
• Elsfleth: vocational school for the county of Wesermarsch
• Lübeck-Travemünde: SHS Seaman School Schleswig-Holstein
4.2 Safety and environmental issues

4.2.1 Implementation of the International Safety Management Code on board vessels
German-owned and controlled tonnage consists mainly of container vessels. Chapter 9 of the International Convention for the Safety of Life at Sea (SOLAS) has been compulsory for these vessels since 2002. The 88th amendment of the SOLAS protocol has been in force since July 2006 and prescribes the double-hull construction of bulk carrier ships.

4.2.2 Safety rules regarding manning
Standards of Training, Certification and Watchkeeping (STCW) 95 governs all manning of seagoing vessels. European Port State Control requires that all ships entering European ports be manned according to STCW 95. In Germany, compliance with STCW 95 is monitored by the See-Berufsgenossenschaft.

4.2.3 Special regulations on safety and the environment
Germany has ratified international treaties regarding marine pollution and safety of life at sea, such as the International Convention for the Prevention of Pollution from Ships (MARPOL) and SOLAS. Present regulations concerning safety and environmental issues are in line with these relevant international conventions to which Germany is a party.

4.3 Registration

4.3.1 Registration requirements
The German Shipping Register is operated by the district courts and consists of registers of inland navigation ships, seagoing ships and ships under construction.

The vessel must be owned by a person residing in Germany or an EU Member State. If a partnership owns a vessel, the majority of the partners have to be German. If a corporation owns a vessel, the majority of the managing directors have to be German.

An EU located partnership or corporation may register a ship in the German Shipping Register if they appoint a representative residing in Germany who is responsible for compliance with shipping-related provisions.

4.3.2 Ship registration procedure
As a basic rule, the registration procedure complies with the procedure of any other international ship register.

4.3.3 Parallel registration
Parallel registration is possible. The prerequisites are the existence of a bareboat charter party and government permission in both countries, i.e., the country of the bareboat charterer and Germany. The permission is granted for two years and can be revoked at any time. In practice, it will be renewed upon simple application.

4.3.4 Requirements for the officers and crew serving on vessels
The qualifications of officers and crew must comply with STCW 95. Masters have to be German or EU citizens. Numbers and qualifications have to comply with the Safe Manning Certificates. However, the maritime alliance enables exceptions to the nationality requirements for officers and mechanics if training positions are provided at the same time.

4.3.5 International conventions regarding registration
There are no such conventions.

5. Accounting

5.1 Vessel
Vessels intended for long-term ownership or use are classified as fixed assets according to German
generally accepted accounting principles. The vessels are valued at historical cost, but are written down to actual value where the decline in value is considered to be permanent and book value exceeds fair value. Vessels are depreciated over their economic lifetime. Audit procedures focus on the completeness of capitalized acquisition costs, appropriate calculation of depreciation and assessment of the need for impairment charges.

5.2 Vessel-based loans
Long-term loans are reported in the balance sheet at the nominal value of the amount received when the loan was granted and is not appreciated to its actual value due to a change in interest rates. However, long-term load agreements are valued taking into account the “higher-value principle” which means that the higher value of the amount received when the loan was granted and its actual fair value is reported resulting, for example, from changes in exchange rates. The audit procedures focus on reconciliation loan redemption with the loan contracts, the appropriateness of recorded interest during the fiscal year as well as accrued interests at the balance sheet date and the adequate consideration of foreign currency translations.

5.3 Charter hire and operational expenditures
Expenses related to uncompleted tramp voyages are capitalized as inventories without profit margin realization. Revenue is recognized when cargo is unloaded. However, charter hire regarding time charter agreements are stated on a pro rata temporis basis within the profit and loss statement. The audit procedures focus on reconciliation of charter hire with the corresponding charter contracts and the completeness and appropriateness of operational expenditures.
Greece

1. Tax

1.1 Tax facilities for shipping companies

Under Greek law, income from shipping activities (i.e., profits from ownership of a Greek-flagged vessel) is annually taxed on the basis of the gross registered tonnage (GRT) of the ship. Payment of this tax results in exemption from any other obligation of corporate income tax, and this exemption also applies to the shareholders (Article 2 of Law 27/1975). Furthermore, this exemption covers any capital gains derived from the sale of vessels, as well as any insurance indemnity associated thereto. The tax is payable annually in installments to the tax office for shipping companies.

Under Greek tax law (L.27/75), vessels are classified in two categories.

Category A includes:
- Motor cargo vessels, tankers and refrigerator ships with a GRT of at least 3,000 registered tons
- Iron cargo vessels for dry or liquid cargo and refrigerator ships with a GRT exceeding 500 registered tons and up to 3,000 registered tons extending their voyages from Greek to foreign ports or trading between foreign ports
- Passenger vessels extending their voyages from Greek to foreign ports or transporting passengers between foreign ports
- Cruise vessels with a GRT of over 500 registered tons, which during the year preceding the tax year carried out scheduled public pleasure voyages between foreign ports or between domestic and foreign ports for at least six months and on an exclusive basis
- Offshore drilling rigs (of over 5,000 displacement tons) and floating production storage offloading vessels (FPSO units) with a GRT of over 15,000 registered tons, used for seabed exploration, offshore drilling, oil or natural gas pumping, refining and storing

Category B includes:
- Fishing boats
- Sailing boats and ships
- Any other vessel not classified under category A

Category A vessels in the Greek registry

The ownership (on 1 January of each year) of vessels flying the Greek flag triggers a tonnage tax liability, irrespective of the owner’s place of residence or establishment.

In 2002, the Greek government reduced the tonnage tax by approximately 70% (as presented below) for tankers, cargo vessels and refrigerator ships with a GRT of over 1,500 registered tons as long as they are registered under Legislative Decree (LD) 2687/53, with the aim to attract vessels to flying the Greek flag. Such reduced rates remained fixed up until 31 December 2007 (see standard rates 2002-07 for vessels registered under LD 2687/53). As of 1 January 2008, said rates increase by 4% per year.

The abovementioned tax for vessels registered after 22 April 1975 is calculated on the gross tonnage of the vessel, which is adjusted by the following scale:

<table>
<thead>
<tr>
<th>GRT</th>
<th>Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>100–10,000</td>
<td>1.2</td>
</tr>
<tr>
<td>10,001–20,000</td>
<td>1.1</td>
</tr>
<tr>
<td>20,001–40,000</td>
<td>1.0</td>
</tr>
<tr>
<td>40,001–80,000</td>
<td>0.9</td>
</tr>
<tr>
<td>Over 80,000</td>
<td>0.8</td>
</tr>
</tbody>
</table>
For vessels registered under LD 2687/53, the tax due is further reduced by 50% for the bracket between 40,001 and 80,000 GRT and 75% for the bracket over 80,000 GRT. Thus, the above scale is determined as follows:

<table>
<thead>
<tr>
<th>GRT</th>
<th>Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>100–10,000</td>
<td>1.20</td>
</tr>
<tr>
<td>10,001–20,000</td>
<td>1.10</td>
</tr>
<tr>
<td>20,001–40,000</td>
<td>1.00</td>
</tr>
<tr>
<td>40,001–80,000</td>
<td>0.45</td>
</tr>
<tr>
<td>Over 80,000</td>
<td>0.20</td>
</tr>
</tbody>
</table>

The taxable gross tonnage is calculated by multiplying the above coefficient rates by each scale of GRT and adding up the total (for example, the taxable tonnage of a vessel with a GRT of 30,000 tons would be: 10,000 GRT * 1.2 + 10,000 GRT * 1.1 + 10,000 * 1 = 33,000 tons).

The amount of the gross taxable tonnage is then multiplied by the respective tax rate corresponding to the age of the vessel, as stated below (US$):

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>0–4</td>
<td>0.53</td>
<td>1.336</td>
<td>1.357</td>
<td>1.378</td>
<td>1.399</td>
</tr>
<tr>
<td>5–9</td>
<td>0.95</td>
<td>2.394</td>
<td>2.432</td>
<td>2.470</td>
<td>2.508</td>
</tr>
<tr>
<td>10–19</td>
<td>0.93</td>
<td>2.344</td>
<td>2.381</td>
<td>2.418</td>
<td>2.455</td>
</tr>
<tr>
<td>20–29</td>
<td>0.88</td>
<td>2.218</td>
<td>2.253</td>
<td>2.288</td>
<td>2.323</td>
</tr>
<tr>
<td>Over 30</td>
<td>0.68</td>
<td>1.714</td>
<td>1.741</td>
<td>1.768</td>
<td>1.795</td>
</tr>
</tbody>
</table>

Following the same example, if the above vessel is a four-year-old tanker, registered under LD 2687/53, the 2016 tonnage tax will be: 33,000 taxable tonnage * US$0.432 = US$14,256.

The euro equivalent is in accordance with the official exchange rate as of 28 February of each year concerned (i.e., 28 February 2016 in this case).

Category B ships in the Greek registry

The tonnage tax imposed on the owner – individual or company – of these vessels is calculated using a scale taking into consideration their GRT and applying the corresponding tax rate.

Ships of Greek ownership in a foreign registry

If the crew members of these vessels (irrespective of their category) are insured by NAT (the Greek Seafarers’ Pension Fund), the shipowners, ship managers, their representatives and process agents, and the person who executed the relating agreement with NAT are jointly liable to pay a special contribution to the Greek authorities under Law 29/75.

The above contribution is calculated on the taxable gross tonnage of the vessel and is determined using a scale based on the GRT of the vessel. The amount of the taxable gross tonnage is multiplied by a tax rate corresponding to the age of the vessel. The total amount of this contribution is calculated in US dollars.
Under the provisions of Article 26 of Law 27/1975, as amended by Law 4110/2013, the aforementioned tonnage tax is also imposed on foreign-flagged vessels owned either by domestic or by foreign companies, in case the vessel's management is assigned to a Greek ship management office established under the conditions set forth by the aforementioned law. The rates applicable are the rates that were applicable for Greek-flagged vessels each preceding year (e.g., for 2016, the rates applicable for foreign-flagged vessels are the rates that were applicable in 2015 for Greek-flagged vessels).

**Taxation of vessels with a flag of the EU/EEA (Article 26a of L.27/1975)**

The new Article 26a of L.27/1975, as inserted by L.4336/2015, concerns the taxation of vessels flying a flag of the European Union (EU) and/or the European Economic Area (EEA).

Under the provisions of Article 26a of L.27/1975, the taxation of certain categories of vessels flying an EU/EEA flag (excluding the Greek flag, as well as foreign-flagged ships managed by an office of Article 25 of L.27/1975) changes for maritime transportation services provided by said vessels as of 1 January 2015 onwards, as going forward the vessels will be subject to the tonnage tax of L.27/1975 on the basis of GRT and not to the general income tax provisions of the Income Tax Code (ITC).

The categories of vessels with an EU/EEA flag, which are subject to the tonnage tax based on their GRT as of 1 January 2015, are the following:

- Professional leisure vessels and daily cruise ships of L.4256/2014
- Passenger vessels and freight and passenger ferries, engaged in regular passenger and ferry routes and schedules, performing domestic maritime transportation in Greece (L.2932/2001)
- Other vessels engaged in maritime transportation to and from domestic ports (cabotage)
- Ships with a total capacity of up to 500 GRT engaged in international maritime transportation (subject to the application of any double taxation conventions and maritime conventions)

The aforementioned categories of vessels flying an EU/EEA flag will be, in principle, subject to tonnage tax rates applicable for category B vessels under L.27/1975.

The following vessels are exceptions to the Category B classification and are subject to the tonnage tax rates applicable for category A vessels of L.27/1975, taking into account the year of incurring the tax liability:

- Cargo vessels of at least 3,000 GRT, which are engaged in regular maritime transportation routes and schedules in Greece
- Passenger vessels of a capacity up to 500 GRT, which are engaged in international maritime transportation

Shipowners or ship-owning companies of EU/EEA-flagged ships that pay a tonnage tax are exempt from any other income tax liability on income derived from shipping activity.

The same exemption from income tax applies to the shareholders or partners of the above companies, up to the level of the ultimate individual owner, on the income they derive from the distribution of net profits and dividends.

Shipowners and shipping companies registered with the relevant vessel registry on the first day of each calendar year, regardless of their domicile, residence or seat in Greece or abroad, are subject to the tonnage tax.

Those who manage the ship and collect fares, as well as the legal representative and guarantor of the shipowner who accepts the appointment in writing, are jointly and severally liable for payment of the tonnage tax.

In case of contractual transfer of the ship's ownership, the new shipowner stands fully liable for payment of the tonnage tax that is due at the time of transfer along with the former shipowner that was liable for payment of the tonnage tax at the time of the transfer.

When the shipowner is a legal entity or the management of the EU/EEA-flagged ships is carried out in Greece by a legal entity, then the payment of tonnage tax and any other tax liabilities is a joint and several liability of the chairman of the board, the chief executive and other executive officers of the board, the manager, the
legal representative and any other person who has been appointed for the administration or management of the ship. The mentioned individuals must be tax residents of Greece and in any case EU/EEA nationals.

The shipowners (upon starting operations in Greece) as well as the managers - guarantors if management is carried out in Greece - and the legal representative and guarantor of the shipowners are annually required to file each January an activity statement (mentioning ship and shipowner identification details) to the special Tax Office for Ships.

**Contribution tax of offices of Law 27/1975**

Offices established under Article 25 of Law 27/1975 (former Law 89/1967) and engaging in activities other than shipping management and exploitation (insurance, brokerage, agency, etc.) are annually taxed on the amount of foreign exchange imported in Greece and converted to euros during the calendar years 2012–15 (which can be no less than US$50,000) according to the following scale:

<table>
<thead>
<tr>
<th>Bracket of imported foreign exchange (US$)</th>
<th>Rate %</th>
<th>Bracket tax (US$)</th>
<th>Total foreign exchange imported (US$)</th>
<th>Total tax (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>200,000</td>
<td>5</td>
<td>10,000</td>
<td>200,000</td>
<td>10,000</td>
</tr>
<tr>
<td>200,000</td>
<td>4</td>
<td>8,000</td>
<td>400,000</td>
<td>18,000</td>
</tr>
<tr>
<td>Excess amount</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

According to the latest amendments in the Greek tax law, the above contribution tax of said offices of L.27/1975 will continue to be imposed for another four years, i.e., for 2016–19 at increased tax rates. More specifically, for these four years, the rates are adjusted as follows:

<table>
<thead>
<tr>
<th>Bracket of imported foreign exchange (US$)</th>
<th>Rate %</th>
<th>Bracket tax (US$)</th>
<th>Total foreign exchange imported (US$)</th>
<th>Total tax (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>200,000</td>
<td>7</td>
<td>14,000</td>
<td>200,000</td>
<td>14,000</td>
</tr>
<tr>
<td>200,000</td>
<td>6</td>
<td>12,000</td>
<td>400,000</td>
<td>26,000</td>
</tr>
<tr>
<td>Excess amount</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Voluntary grant of shipping community as per the memorandum and its accompanying supplementary act between the Greek State and the Union of Greek Shipowners ratified and entered into force pursuant to Article 42 of Law 4301/2014**

With a memorandum that was signed on 18 July 2013 and its supplementary act that was signed on 31 July 2014, which repealed and ratified Article 14 of Law 4223/2013 on the special voluntary grant of the shipping community, a voluntary grant shall be paid for years 2014, 2015, 2016 and 2017 on behalf of the Greek shipping community in addition to the existing tax obligations arising from the taxation of ships flying the Greek or any foreign flag.

This voluntary grant is levied yearly for four years (2014, 2015, 2016 and 2017) on:

- Greek-flagged ships
- Foreign-flagged ships managed by a company established in Greece according to Article 25 of Law 27/1975

In both cases, the levy is equal to the final tonnage tax due for each ship each preceding tax period, while any time periods during which the ship paused its operations (due to repair, etc.) do not grant the
right for a tax deduction. The total time during which the ships are under the Greek flag or under the management of the Greek management office of Law 27/1975 is taken into account for the calculation of the contribution amount.

The total amount of the voluntary grant of the shipping community had been calculated since July 2014 to €105 million per year for four years (2014, 2015, 2016 and 2017); hence, the total payable amount from the shipping community is expected to reach €420 million.

All ship-owning companies and shipowners and the above management companies established in Greece (if applicable) are personally liable for their own contribution, which is assessed via the filing of a voluntary grant return accompanied by copies of the tax returns of each preceding tax year. The payment of the contribution leads to the issuance of a certification by the competent authority necessary for acquiring a tax and social security clearance certificate (stating that no tax and/or social security debts are outstanding) and issuing a certification regarding the lawful establishment of the management company in Greece (if applicable).

Leisure (cruise) ships

According to Article 2 of Law 3790/2009 as amended by Article 64 of Law 3842/2010, a special annual tax is imposed on private (not professional) leisure (recreational) ships. Said special tax is imposed only if the aforementioned ships remain in Greek territory for more than 60 days within a calendar year, are registered either in a Greek or foreign registry, and have been furnished with certain documents (e.g., a leisure ship's trade slip or transit log book) by the domestic competent authorities.

Within this legislative framework, the special tax is imposed on motor vessels that exceed 10 meters and is calculated as follows:

- For the first 10 meters, a special duty of €1
- For the next 3 meters (11-13 meters), €300 per meter
- For the next 4 meters (14-17 meters), €550 per meter
- For the next 4 meters (18-21 meters), €800 per meter
- For the next 4 meters (22-25 meters), €1,050 per meter
- For the meters in excess (26 meters and over), €1,300 per meter

Special tax is also imposed on sailing ships and again is calculated based on the length of the ship.

The owner of the leisure ship, either individual or legal entity, is liable for the payment of said special tax. If the owner is a legal entity, its legal representative or administrator is jointly and severally liable for the payment of said tax. Said special tax has to be prepaid by 15 October of the year preceding the calendar year to which it refers.

Furthermore, according to Article 13 of Law 4211/2013, a special annual levy (Greek cruising levy) is imposed as of 1 January 2014 on private or professional leisure (recreational) ships, small motor engine vessels longer than seven meters, and tourist daily cruise vessels longer than seven meters that sail, anchor or dock in Greek territorial waters independently of which flag they are flying.

The levy for ships shorter than 12 meters is calculated as follows:

<table>
<thead>
<tr>
<th>Range of total length (in meters)</th>
<th>Annual levy (in euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>7-8</td>
<td>200</td>
</tr>
<tr>
<td>8-10</td>
<td>300</td>
</tr>
<tr>
<td>10-12</td>
<td>400</td>
</tr>
</tbody>
</table>

The levy for ships longer than 12 meters is calculated either at €100 per meter per annum or €10 per meter per month, starting in both cases from the first meter of length.
The levy, as determined above, is reduced by 50% for professional ships, including tourist daily cruise vessels, with exclusive professional use. Further, the levy is reduced by 30% for ships longer than 12 meters that permanently dock in Greece.

Payment is due to be effected electronically before entering the Greek territorial waters or in December of each year for the following year (if already in Greek territory), and the relevant receipt will be kept as proof for payment. In case of nonpayment, a fine is imposed equal to 100% of the due levy. However, a Ministerial Decision enabling collection of said cruising levy has not yet been enacted.

1.2 Tax facilities for seafarers
The main incentive for Greek seafarers is the lower income tax rate compared to other employees (i.e., the income tax rates for seafarers are 15% and 10% for officers and lower crew, respectively).

As mentioned in section 1.1 above, the question of deductibility of seafarers' wages is irrelevant for shipping companies since they are not subject to corporate income tax.

1.3 Tax treaties and place of effective management
Greece has concluded double tax treaties (DTTs) on income and capital tax with the following countries in order to avoid double taxation:

Albania, Armenia, Austria, Azerbaijan, Belgium, Bulgaria, Canada, China, Croatia, Cyprus, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Georgia, Germany, Hungary, Iceland, India, Ireland, Israel, Italy, Kuwait, Latvia, Lithuania, Luxembourg, Malta, Mexico, Moldova, Morocco, Netherlands, Norway, Poland, Portugal, Qatar, Romania, Russian Federation, San Marino, Saudi Arabia, Serbia, Slovak Republic, Slovenia, South Africa, South Korea (ROK), Spain, Sweden, Switzerland, Tunisia, Turkey, Ukraine, United Arab Emirates, United Kingdom, United States of America and Uzbekistan.

Under most of the above treaties, profits from international transportation are taxable in the state of the ship's registry.

In addition, Greece has concluded shipping and air transport agreements for the avoidance of double taxation of income derived from sea and air transport. The main countries are Albania, Australia, Bulgaria, China, Denmark, Egypt, Estonia, Ethiopia, Georgia, Germany, Jordan, Lebanon, Morocco, Netherlands, Norway, Pakistan, Poland, Romania, Russian Federation, South Africa, Switzerland, Syria and Yugoslavia.

*The application of the Greece-Yugoslavia shipping and air transport agreement varies depending on the successor state (i.e., Bosnia-Herzegovina, Croatia, Macedonia, Montenegro, Serbia, Slovenia and Kosovo). It explicitly applies with respect to Croatia and Slovenia.

1.4 Freight taxes
No freight taxes are levied to the extent the tonnage tax regime is applicable.

1.5 Special vessel registration tax benefits for the shipowner
Tonnage tax was reduced by approximately 70% as from 1 January 2002 and was maintained at these rates until 31 December 2007 for tankers, cargo vessels and refrigerators with a GRT of over 1,500 tons that are registered under LD 2687/53.

1.6 Changes to tax law
The recent Law 4256/2014 consolidated the definitions regarding the professional and private leisure (cruise) vessels. With said law, a special registry kept by the Ministry of Finance was established for the registration of such vessels, which is yet expected to become fully operable.

The main aim of said law is to safeguard the correct implementation of the relevant value-added tax (VAT) and special tax exemptions applicable to professional leisure (cruise) vessels.

L.4336/2015 introduced provisions for the extension of the Greek tonnage tax regime to cover certain categories of vessels flying an EU/EEA flag, as analyzed above under 1.1.

The same law extended the imposition of contribution tax for offices of Article 25 of L.27/1975 for another
four years, i.e., for the period from 2016–19, increasing the applicable tax rates.

2. Human capital

2.1 Formalities for hiring personnel
Crews of Greek cargo vessels consist of Greek qualified seafarers holding an appropriate certificate.

The safe manning of the vessels and the licenses, diplomas or the permits that each crew member must possess are determined by the relevant presidential decrees, according to the tonnage, type and technical characteristics of each vessel.

The formalities for hiring personnel are governed by the international Standards of Training, Certification & Watchkeeping Convention 1995 (STCW 95) as amended and in force, including PD 79/2012, which approved decisions STCW/CONF.2/33 and STCW/CONF.2/34 of the International Maritime Organization (IMO).

Seafarers commonly enter into a contract with the management company on behalf of the owning company. The crew contracts usually contain details of wages and overtime, duration, payment terms, repatriation, the nature of work, and duties and responsibilities according to each time-applicable rule.

The safe manning of each vessel is ruled by each ship's administrative registration acts. The captain must be of Greek nationality.

2.2 National labor law
National labor law applies to all vessels flying the Greek flag or employing seafarers registered with NAT, unless (and always under the provisions of each vessel's administrative registration act) an individual employment contract was signed between the seafarer and the ship-owning company under the laws of a third country.

2.3 Regulations on employing personnel
By virtue of Law 4078/2012, Greece ratified the Maritime Labour Convention, 2006 of the International Labour Organization (ILO), which sets out the conditions for decent work in the increasingly globalized maritime sector. The convention sets minimum requirements for seafarers to work on a ship and contains provisions on conditions of employment, hours of work and rest, accommodation, recreational facilities, food and catering, health protection, medical care, welfare, and social security protection.

2.4 Collective labor agreements
Greek maritime collective labor agreements are executed in accordance with the provisions of Law 3276/44 between relevant employer's and employee's federations. After execution, they are ratified by the administration and published to the Greek Government Gazette.

Collective labor agreements contain terms such as:
- Term of embarkation
- Minimum wage and other mandatory payments, which vary according to the seafarer's position
- Leave entitlements (eight days per month holiday payment)
- Entitlements due to illness
- Rules regarding breach of contract
- Rules regarding working hours, e.g., eight standard hours and four hours maximum overtime as per the ILO convention

Greek seafarers are organized under relevant maritime trade unions, such as the Panhellenic Seafarers' Union Organization (PNO), the Panhellenic Union of Engineers (PEMEN) and the Panhellenic Union of Masters (PEPEN). These bodies have an active role in forming collective labor agreements and protecting seafarers' rights in general.
Through 2013, the following maritime collective labor agreements were concluded and further ratified by the Greek Ministry of Economy, Infrastructure, Shipping and Tourism for:

- Tugboat crew members
- Lifeboat crew members
- Masters of Mediterranean and tourist vessels
- Crew members of Mediterranean and tourist vessels
- Crew members of ferryboats and passenger vessels

Through 2014, the following maritime collective labor agreements were concluded and further ratified by the Greek Ministry of Economy, Infrastructure, Shipping and Tourism for:

- Tugboat and lifeboat crew members
- Masters of Mediterranean and tourist passenger vessels
- Crew members of Mediterranean and tourist passenger vessels
- Crew members of ferryboats and passenger vessels

Notwithstanding the ILO conventions that have been ratified, during the implementation of the Medium Term Fiscal Strategy, enterprise collective agreements supersede the relevant collective agreements even if they include terms that diverge.

2.5 Treaties relating to social security contributions

Greek seafarers are registered with NAT. Various regularly renewed collective agreements exist, and they vary depending on the position of the seafarer on board and the type of vessel.

3. Corporate structure

3.1 Most commonly used legal structures for shipping activities

The most commonly used legal structure for carrying on shipping activities is the incorporation of a ship-owning company (one vessel per company) as an offshore legal entity (most frequently as a Cypriot, Liberian, Maltese, Marshallsele or Panamanian offshore ship-owning company) that operates in Greece through a management agreement with a management company (usually incorporated in one of the above jurisdictions), establishing a branch office in Greece under former Law 89/67 (and yet under Law 27/1975).

Provided that this structure is adhered to, ship management and ship-owning companies are exempt from any corporate income tax related to the shipping activity (except for the tonnage tax (see section 1.1)).

3.2 Taxation of profit distribution

Apart from the tonnage tax mentioned above, no other tax is imposed on either the profits of companies owning vessels flying the Greek flag or dividends from such companies, except that such dividends are subject to special solidarity contribution at the level of the Greek tax resident individual.

Moreover, no tax is imposed on the distribution of profits to Greek tax residents from foreign companies owning ships flying a foreign flag, if they are under the administration of a company established in Greece; such distribution is tax free regardless of whether it is made directly to the shareholders or through a holding company and regardless of how many holding companies are interposed. The same exemption stands also for ships flying an EU/EEA flag, insofar as they are eligible for the Greek tonnage tax regime of the new Article 26a of L.27/1975 (as introduced by L.4336/2015).

Law 4141/2013, which came into force on 4 May 2013, specifies certain conditions and the necessary supporting documentation that Greek tax resident individuals are obliged to maintain and submit in order to cover eventual deemed income assessments through the receipt of shipping dividends.

Law 4141/2013 imposed a 10% tax, exhausting any other tax liability of the beneficiary (including special
solidarity contribution), on dividends or distributed profits, in the form of a bonus, that are received by a Greek tax resident individual and are paid or credited from fiscal year 2012 (financial year 2013) onwards by a foreign company of any type and form that maintains offices or branches established in Greece according to Article 25 of Law 27/75, which deals exclusively with freight, insurance, settlement wreck, brokerage or construction or insurance or chartering of Greek or foreign-flagged ships of over 500 GRT as well as with the representation of shipping companies and companies with a similar object.

Foreign companies that have set up an office or branch in Greece under Article 25 of Law 27/75 and are engaged in managing or operating Greek or foreign-flagged ships are exempt from such tax.

4. Grants and incentives

4.1 Specific and/or general subsidies available to shipping companies
Greek-flagged vessels built in Greek shipyards are exempt from tonnage tax for the first six years following the time they are set at the disposal of the shipowner.

4.2 Investment incentives for shipping companies and the shipbuilding industry
In 2002, the Greek government reduced the tonnage tax by approximately 70%, giving incentives to Greek and European Community vessels to register under the Greek flag.

4.3 Special incentives for environmental awareness
There are no special incentives. Penalties are a deterrent.

4.4 Major changes in shipping subsidy legislation in the near future
No such changes are expected.

5. General information

5.1 Infrastructure

5.1.1 Major ports
The major ports are Alexandroupoli, Astakos, Igoumenitsa, Iráklion, Kalamata, Lavrio, Patras, Piraeus, Rafina, Thessaloníki and Vólos.

The port of Piraeus, managed by OLP AE, a company listed on the Athens Stock Exchange, has general cargo and container facilities and is used extensively for transshipment by sea. The port, which is the largest European port and the third largest passenger port worldwide, facilitating more than 20 million passengers per year, was reorganized with new infrastructure works for hosting the 2004 Olympic Games.

Thessaloníki port, already privatized, is mainly used for trading with Balkan Peninsula countries.

5.1.2 Port facilities
The following facilities are available:

- Maintenance and repair
- Docking (in the port of Piraeus, where dry-docking facilities can accommodate vessels up to 300,000 dead weight tonnage)
- Storage (for general cargo, reefer cargo and container terminals)
- Cranes for every size of vessel

5.1.3 Support services for the shipping industry
The following support services are available:
• Greek and foreign banks with a shipping desk
• Consulting firms specializing in shipping (more than 20 firms)
• Maritime law services (more than 50 Greek and foreign law firms specializing in general and special maritime law)
• Insurance brokers for the shipping industry
• Protection and indemnity clubs

5.1.4 Maritime education
Maritime education is provided by:
• National Merchant Navy Academy, which operates in various cities in Greece (Aspropirgos, Chios, Hydra, Ionian Islands, Iráklion, Kimi Euvoias and Syros, among others)
• University of Piraeus – Shipping Studies Department

5.2 Safety and environmental issues

5.2.1 Implementation of the International Safety Management Code on board vessels
All tankers, bulk carriers, cargo vessels and passenger vessels under Greek beneficial ownership have implemented the International Safety Management (ISM) Code. (Greece has implemented the relevant EU legislation and the decisions of the IMO regarding the compulsory implementation of the ISM Code.)

5.2.2 Safety rules regarding manning
The existing safety rules for manning can be characterized as strict. High standards are imposed on education, qualifications and training of seafarers. In addition, Greece is in compliance with STCW 95 regulations.

The Ministry of Economy, Infrastructure, Shipping and Tourism monitors the constant upgrading of Hellenic ships’ safety standards and their harmonization with the decisions and regulations of international organizations and European Community directives.

5.2.3 Special regulations regarding safety and the environment
Greece has ratified a large number of international treaties regarding marine pollution and safety of lives at sea, such as MARPOL (International Convention for the Prevention of Pollution From Ships) (ratified under Law 743/1977) and SOLAS (International Convention for the Safety of Life at Sea). In addition, Greece is in full compliance with the IMO. Greece is a confirmed party of the IMO White List.

Since 2001, the Greek flag has been included in the Paris Memorandum of Understanding (MoU) White List. Also, the percentage of port state control inspections to ship calls at Greek ports was much higher than the required percentage of inspections under the Paris MoU (according to the Annual Report 2007 Paris MoU on Port State Control, available at the Paris MoU website: www.parismou.org). This underlines the quality of vessels flying the Greek flag and the Greek government’s awareness of environmental safety.

The Ministry of Economy, Infrastructure, Shipping and Tourism is generally regarded as very strict where safety is concerned and has validated the international safety regulations, including Environmental Risk from Ionising Contaminants: Assessment and Management (ERICA) I and II. Furthermore, Greece, as a member of the EU, promotes the implementation of double hull requirements for oil tankers and equivalent design requirements for single hull oil tankers, as well as the banning of carriage of heavy fuel oil by single hull tankers.

5.3 Registration

5.3.1 Registration requirements
Registration of a vessel under the general provisions of Greek law

According to Article 5 of the Greek Code of Public Maritime Law (Law 187/1973), in order for a ship to be registered in the Greek registry more than 50% of the shares in the ship must be owned by Greek or other EU or EEA citizens (individuals or companies). The ship-owning EU or EEA company is required to have a form
of establishment according to Article 54 of the European Commission (EC) Treaty. A Greek ship must be registered in a ship's registry. The act of registration must be dated and signed by the registrar of ships. All Greek ships and floating structures are registered in the public registry books kept by the port authorities. A ship under construction may also be registered. There are no age limits for cargo vessels and tankers.

Registration of a vessel pursuant to the terms of Article 13 of LD 2687/53 “for investments and protection of foreign capital”

The Greek state, aiming to attract foreign capital, has enacted Article 13 of LD 2687/53. Under this article, a foreign (non-Greek) company can register a vessel under the Greek flag on the condition that more than 50% of the shares in the ship are owned by European Community citizens (this is certified by the Association of Greek Shipowners, which issues a certificate of Greek ownership) and the vessel’s GRT is over 1,500.

There is no fee for the registration of a ship under the Greek flag, nor are there any annual fees. There is also no fee for the registration of a mortgage in the ship’s registry.

5.3.2 Ship registration procedure
An application is submitted to the Ministry of Economy, Infrastructure, Shipping and Tourism, along with all of the necessary documentation, and upon approval, a certificate of registration under the Greek flag is issued in the name of the shipping company.

5.3.3 Parallel registration
Parallel registration is not possible at this time under Greek legislation.

5.3.4 Requirements for the officers and crew serving on vessels
Certain minimum educational qualifications and a minimum number of years' experience at sea are required in the case of officers. Non-officers must have a valid seafarer's passport.

5.3.5 International conventions regarding registration
No international conventions regarding registration have been adopted.

5.3.6 Special requirements and rules relating to registration
All Greek port authorities that keep ship registry books also keep the relevant mortgage books. There are two types of mortgages:
- The ordinary mortgage for all types of vessels
- The preferred mortgage, which is for vessels with a GRT of over 500 (LD 3899/10 - 11 November 1958)

A notarial deed is required for a maritime mortgage to be registered in the ship's registry.
Hong Kong

Hong Kong is a special administrative region of China, and hence is a separate jurisdiction from mainland China.

1. Tax

1.1 Tax facilities for shipping companies

There is a specific charging section in Hong Kong Inland Revenue Ordinance (IRO), Section 23B, governing the taxation of a shipowner carrying on business in Hong Kong.

Under Section 23B(1) of the IRO, a person carries on business as an owner of ships in Hong Kong if:

- The business is normally controlled or managed in Hong Kong.
- The person is a company incorporated in Hong Kong.

The term “controlled and managed in Hong Kong” is not defined in the IRO. In practice, a business is considered controlled and managed in Hong Kong if the control or management of the day-to-day operations of the business takes place in Hong Kong.

Under Section 23B(2) of the IRO, when a person to whom Section 23B(1) does not apply carries on a business as an owner of ships, and any ship owned by that person calls at any location within Hong Kong waters, the person shall be deemed to be carrying on that business in Hong Kong. In this connection, calls of a casual nature may be disregarded at the discretion of the Commissioner of Inland Revenue (CIR). It should be noted that the casual call exemption only applies to taxpayers to whom Section 23B(1) does not apply.

Pursuant to Section 23B(3) of the IRO, the amount of Hong Kong assessable profits or allowable losses derived by a Hong Kong shipowner under Section 23B(1) or a nonresident shipowner under Section 23B(2) is ascertained by the following formula:

\[
\text{Relevant sums} = \frac{\text{Total shipping profit} \times \text{Total shipping income}}{\text{Total shipping income}}
\]

Where the assessor is of the opinion that the above formula cannot be satisfactorily applied to a nonresident shipowner, the assessable profits of such a nonresident shipowner may instead be computed on the basis of a fair percentage of the relevant sums accruing to the shipowner during the basis period.

If an assessment has been made on the basis of this fair percentage method, it is open to the shipowner to elect at any time within two years after the end of the year of assessment to have the profits revised to those ascertained by the formula method.

The definitions of the relevant terms used under Section 23B are as follows:

- Total shipping profit means the worldwide accounting profit of the shipowner from its business as an owner of ships and as adjusted for profits tax purposes in accordance with the provisions of the IRO.
- Total shipping income means the worldwide income of the shipowner as reflected in its accounts from the operation of the shipping business. The amount excludes any income from ship dealing, agency income and investment income.

Relevant sums are the shipowner’s receipts earned from, attributable to or in respect of:

(i) Any relevant carriage shipped in Hong Kong (carriage by sea of passengers, goods, livestock and mail, but does not include goods in transit and re-embarking passengers)

(ii) Any towage operation undertaken by a ship within the waters of Hong Kong or undertaken by a ship commencing within Hong Kong waters
(iii) Any dredging operation undertaken by a ship within Hong Kong waters
(iv) Any charter hire in respect of the operation of a ship navigating solely or mainly within the waters of Hong Kong
(v) One half of the charter hire in respect of the operation of a ship navigating between any location within the waters of Hong Kong and any location within waters of river trade limits
(vi) Any charter hire in respect of a charter party where one of the parties is a limited partnership that was registered in accordance with the Limited Partnership Ordinance before 2 December 1990 and whose principal assets include any ship, or any interest therein, acquired on or before that date

Where:
- Goods in transit means goods specified in a bill of lading that are brought to Hong Kong by sea solely for the purpose of onward carriage of those goods and in respect of which no freight charges for that onward carriage are paid or payable in Hong Kong.
- Re-embarking passengers are passengers whose tickets do not specify Hong Kong as the place of departure or as the place of destination.
- Charter hire means any sums earned by or accrued to an owner of a ship under a charter party in respect of the operation of a ship, but does not include any sums so earned or accrued where that charter party does not, or does not purport to, extend to the whole of that ship.
- If a charter party does not extend to the whole of the ship, the sums so derived are not treated as charter hire income. Instead, the sums derived attributable to any voyage commencing in Hong Kong waters are deemed to be in respect of the relevant carriage shipped in Hong Kong and are taxed as such.
- River trade limits has the same meaning as in the Hong Kong Merchant Shipping Ordinance. The term refers to waters in the vicinity of Hong Kong and inland waterways within the Pearl River Delta (for example, Macau and Mainland China ports, such as Guangzhou).

Exempt sums are excluded from the “relevant sums” and comprise any amount otherwise included under (i) and (ii) above to the extent the ship that uplifted the goods, livestock, mail or passengers in Hong Kong, or is engaged in towing operations, is proceeding to sea from Hong Kong and

a) The ship is registered in Hong Kong under the Merchant Shipping (Registration) Ordinance.
b) The amount is derived by a person who has “reciprocity status.” A shipowner has “reciprocity status” if subject to Hong Kong profits tax by virtue of Section 23B(2) and resident in a territory outside Hong Kong which, if the Commissioner is satisfied, grants exemption from income or profits tax to shipowners controlled, managed or incorporated in Hong Kong in respect of their income derived from a business as an owner of ships carried on in that territory. In this regard, the Hong Kong Inland Revenue Department (IRD) has advised that shipowners from Chile, New Zealand and the Republic of Korea qualify for reciprocity status.

1.2 Tax facilities for seafarers

The wage costs of seafarers would normally be charged to the profit and loss account of a shipowner in order to arrive at its total shipping profit for a year. Thus, the wage costs would be deductible, subject to the apportionment as shown above.

Hong Kong salaries tax is imposed on a person who is in receipt of income arising in or derived from Hong Kong from any office, employment or pension.

An exemption clause is provided in the IRO to exempt a crew member from salaries tax if he or she is present in Hong Kong for no more than:

- A total of 60 days in the basis period (i.e., from 1 April to 31 March of the next year) for a year of assessment
- A total of 120 days falling partly within each of the basis periods for two consecutive years of assessment, one of which is the year of assessment being considered.

The salaries tax charge is the lower of the net chargeable income (assessable income less concessionary deductions and allowances) at progressive rates ranging from 2% to 17%, or at a flat rate of 15% on
assessable income less concessionary deductions.

Notwithstanding the above, the income of a crew member of a ship operated in international traffic may be exempt from Hong Kong salaries tax irrespective of the individual’s physical presence in Hong Kong, pursuant to the conditions as specified in certain stand-alone shipping agreements or comprehensive double tax agreements (CDTAs) Hong Kong has entered into with other jurisdictions.

1.3 Tax treaties and place of effective management

Hong Kong has entered into tax treaties with the following:

Austria, Belgium, Brunei, Canada, Czech Republic, France, Guernsey, Hungary, Indonesia, Ireland, *Italy, Japan, Jersey, **Korea, Kuwait, Liechtenstein, Luxembourg, Mainland China, Malaysia, Malta, Mexico, Netherlands, New Zealand, Portugal, Qatar, **Romania, **Russia, *South Africa, Spain, Switzerland, Thailand, * United Arab Emirates, United Kingdom and Vietnam.

*Treaties will be effective from year of assessment 2016–17

**Treaties not yet in force, pending the completion of the ratification procedures

Hong Kong has entered into CDTAs with the above jurisdictions and is also negotiating with a number of other jurisdictions. Except for Thailand and Indonesia, each of the above-listed CDTAs contains a clause with respect to the taxation of international transportation that states that profits from the operation of ships in international traffic shall only be taxed in the jurisdiction in which the enterprise operating the ships is a resident. Under Hong Kong’s CDTAs with Thailand and Indonesia, however, 50% of the relevant shipping profits would still be taxed in the source jurisdiction. The CDTA with Mainland China, in addition to exempting corporate income tax, also exempts the relevant shipping income from business tax in Mainland China.

In addition to CDTAs, Hong Kong has also entered into stand-alone shipping agreements with Denmark, Germany, Norway, Singapore, Sri Lanka and the United States. Except for the agreement with Sri Lanka, these agreements generally provide for tax exemption in one contracting party for international shipping profits and gains on the disposal of ships operated in international traffic derived by certain qualified enterprises of the other contracting party. Under the agreement between Hong Kong and Sri Lanka, 50% of the profits derived from the operation of ships in international traffic may still be taxed in the source jurisdiction.

Residence

Under most of Hong Kong’s CDTAs, a company that is incorporated in Hong Kong or, if incorporated outside Hong Kong, is normally managed or controlled in Hong Kong will be considered to be a resident of Hong Kong.

In this regard, the IRD has stated that the phrase “normally managed or controlled in Hong Kong,” as used in Hong Kong’s CDTAs, is different from the phrase “central management and control” as generally used in common law to establish the residence of a company. The IRD states that the former phrase has a broader meaning than the latter, as it does not require that both management and control be exercised in Hong Kong. In relation to determining whether a company is normally managed or controlled in Hong Kong, the IRD has indicated the following:

“Management,” in this context, refers to management of daily business operations or implementation of the decisions made by top management, etc. “Control,” on the other hand, refers to control of the whole business at the top level, including formulating the central policy of the business, making strategic policies of the company, choosing business financing, evaluating business performance, etc. The board of directors usually exercises “control.” In other words, if the business of the company is normally managed or controlled in Hong Kong, including if the management of its daily business operations, the implementation of the decisions made by top management or the making of top-level policies is managed or controlled in Hong Kong, the company will be considered to be a resident of Hong Kong. The “management” or “control” of a company may be conducted in more than one place. However, so long as a company is normally managed or controlled in Hong Kong, it will be considered to be a resident of Hong Kong.
Where a company is a resident of both jurisdictions under the definition of the relevant terms contained in a CDTA, the tie-breaker clause of the CDTA generally provides that the company shall be deemed to be a resident only of the side in which its place of effective management is situated.

In this context, the IRD has indicated the following:

The term “place of effective management” refers to the place where key management and strategic decisions that are necessary for the conduct of the company’s business are in substance made. Under normal circumstances, it is the place where the most senior persons of a company formulate the direction and work plans of the company. A company can have only one place of effective management at any one time.

1.4 Freight taxes
Hong Kong does not have any freight taxes.

1.5 Special vessel registration benefits for the shipowner
Please refer to section 1.1 above.

1.6 Major changes to tax law anticipated in the near future
Major changes to the tax legislation regarding shipping in the near future are not expected.

2. Human capital

2.1 Formalities and regulations for employing personnel
There is no nationality or residential requirement for officers and crew serving on Hong Kong-registered ships. Crew size depends on the size and the type of ship and is set out in the Minimum Safe Manning Certificate required by the SOLAS Convention. Officers, as listed in the Minimum Safe Manning Certificate, are required to hold the respective classes of certificates of competency issued by Hong Kong, or Hong Kong Licenses issued in recognition of certificates of competency (for seagoing [ocean-going] ships except coastal or river trade voyages) issued by other maritime authorities in accordance with the Standards of Training, Certification & Watchkeeping (STCW) 1995 Convention. Ratings engaged on watchkeeping duties should hold STCW Watchkeeping Certificates issued in accordance with the STCW 1995 Convention.

2.2 National labor law
The Employment Ordinance covers all employees, whether temporary or part-time, except a person serving under a crew agreement under the Merchant Shipping (Seafarers) Ordinance, or on board a ship that is not registered in Hong Kong.

2.3 Collective labor law
Hong Kong does not have collective labor legislation.

2.4 Treaties regarding social security contributions
Hong Kong has not entered into any social security or premium obligations treaties with other jurisdictions.

2.5 Manning advantages or disadvantages of flying Hong Kong’s flag
There are no apparent advantages or disadvantages of flying Hong Kong’s flag in relation to manning.

3. Corporate structure

3.1 Most commonly used legal structures for shipping activities
The most commonly used legal structures for shipping activities are in the form of corporations. The tax rate applicable to all corporations is 16.5%.
3.2 Taxation of profit distribution
Dividends are exempted from tax in Hong Kong as a matter of law or practice, and there is no withholding tax on dividends made by a Hong Kong company to its investors.

4. Grants and incentives

4.1 Specific and/or general subsidies available to shipping companies
There are no specific or general subsidies available to shipping companies.

4.2 Investment incentives for shipping companies and the shipbuilding industry
There are no investment incentives for shipping companies and the shipbuilding industry.

4.3 Special incentives for environmental awareness
There are no special incentives for environmental awareness.

4.4 Advantages or disadvantages of flying the Hong Kong flag
There are none applicable, as Hong Kong does not provide any subsidies and grants for shipping companies.

4.5 Major changes in shipping subsidy legislation anticipated in the near future
Major changes to shipping subsidy legislation in the near future are not expected.

5. General information

5.1 Infrastructure

5.1.1 Major ports
Hong Kong has only one major port located in the Kwai Chung-Tsing Yi basin.

5.1.2 Port facilities
The following support facilities are available:
- Maintenance and repair
- Docking
- Storage
- Cranes for every size of vessel

5.1.3 Support services for the shipping industry
The following support facilities for the shipping industry are available:
- Banks with a shipping desk
- Consulting firms specialized in shipping
- Maritime law services
- Insurance brokers for the shipping industry

5.1.4 Maritime education
There are two types of systems for Maritime education.

University level: the Hong Kong Polytechnic University operates a degree program in International Shipping and Transport Logistics. This program equips graduates with a wide knowledge of maritime transport and logistics within a general broad perspective of international transport and trade. Graduates are taught the skills necessary to understand and manage maritime organizations and personnel.

Vocational type: the Maritime Services Training Institute (MSTI) provides a wide range of courses for new entrants, local and foreign in-service seafarers, and employees of marine-related and shore-based industry.
The courses that MSTI provides include the two-year full-time Diploma Courses in Maritime Studies, new entrant day courses and modular day courses for deck cadet officers, local and foreign in-service seafarers, and employees of marine-related and shore-based industries. Besides, MSTI provides tailor-made safety training courses to meet the requirements of corporations.

5.2 Safety and environmental issues

5.2.1 Implementation of the International Safety Management Code

All Hong Kong-registered ships are required to carry the International Safety Management (ISM) certificate and comply with the ISM certification requirements. The Marine Department also conducts safety inspections.

5.2.2 Safety rules regarding manning

The Shipping and Port Control (Works) Regulation and the Merchant Shipping (Local Vessels) (Works) Regulation entered into force on 2 January 2007. All persons employed who carry out works on board the vessel in the waters of Hong Kong should hold valid certificates in respect of the relevant safety training courses. The requirements of mandatory safety training under the above regulations are to ensure that any persons engaged in the work – such as shipboard cargo handling, ship repair and shipbreaking, and marine construction – on board a ship in the waters of Hong Kong have received relevant safety training.

5.2.3 Special regulations on safety and the environment

Hong Kong adopts all major international conventions promulgated by the International Maritime Organization (IMO) and the International Labour Organization (ILO).

5.3 Registration

5.3.1 Registration requirements

A ship that complies with international standards for safety and protection of the marine environment would be able to meet the requirements for registration in Hong Kong. A ship is able to be registered in Hong Kong when:

- A majority interest in the ship is owned by one or more “qualified persons” or is operated under a demise charter (bareboat charter) by a corporation that is a “qualified person” (see definition below).
- The ship is not registered elsewhere.
- The vessel (G.N.4653 dated 16 September 2005) is not a:
  - Non-self-propelled barge carrying petroleum products or dangerous goods of any substance that falls within the purview of the International Convention of Pollution from ships Annexes I, II or III
  - Accommodation barge
  - Fishing vessel
  - Ship engaged in processing living resources of the sea, including whale and fish factories and aqua farming vessels
  - Specialized ship engaged in research, expeditions or survey
  - Non-convention ship serving exclusively within the domestic waters of a jurisdiction (other than Hong Kong and Mainland China waters) and not proceeding to sea
  - Ship propelled by nuclear energy
  - Mobile offshore drilling unit
  - A representative person is appointed in relation to the ship.
  - A qualified person must be:
    - An individual who holds a valid Hong Kong Identity Card and who is ordinarily a resident in Hong Kong
    - A body incorporated in Hong Kong
  Or
  - An overseas company registered in the Hong Kong Companies Registry under the Hong Kong Companies Ordinance
5.3.2 Ship registration procedure

Registration should be made to the Marine Department. The following documents (which must be original, unless otherwise specified) will need to be submitted for full registration of the ship:

- Application form (Form No. RS/A1)
- Form of Authority (Form No. M.O. 812) for making and signing applications and declarations, where necessary
- Declaration of Entitlement to own a ship registered in Hong Kong (where a ship has more than one owner, a separate Declaration of Entitlement must be made by each owner)
- Title documents (e.g., a Builder’s Certificate [Form No. M.O. 42] for a new ship; or a duly executed Bill of Sale plus a copy of Certificate of Ownership free of encumbrance where there has been a sale of the ship in favor of the owner; or a Certificate of Ownership free of encumbrance where there has not been a sale of the ship that is not a new ship)
- Certificate or evidence of deletion from the previous registry if it is not a new ship. The evidence can be in any one of the following forms:
  - A certificate of deletion from the last registry where the ship was registered
  - A letter, telex or fax from the ship’s last registry informing the Hong Kong Shipping Registry that it has consented to close the ship and that steps are being taken to effect the closure
  - A certified true copy of the application made by the owner or the representative person of the ship to the registry where the ship was last registered to close the registration of the ship

Notes:

- Where the certificate(s) of deletion cannot be produced at the time of registration, it or they must be presented to the Registrar within 30 days from the date of registration.
- If the ship is concurrently registered in more than one register, evidence of deletion from each of the registers is required.
- When the vessel is successfully registered in Hong Kong, the vessel’s previous registration(s) shall have been deleted.
- Certificate of Incorporation or Registration in Hong Kong of owner or Hong Kong Identity Card of owner, as appropriate. A certified true copy of the company certificate or Hong Kong Identity Card is also accepted
- Original or certified true copy of Certificate of Incorporation and Memorandum of Association of the representative person appointed in relation to the ship, where applicable
- Certificate of Survey (SUR59E) giving the principal particulars of the ship, international tonnage, etc.
- Certificate or Declaration of Marking of Ship (Form No. RS/S1) completed by the master of the ship or an authorized surveyor

Provisional registration is not a prerequisite for full registration. However, provisional registry should be appropriate when the original title documents cannot be produced at the time of registration.

The validity of provisional registration is one month. In special circumstances, it may be extended for a further period of one month maximum upon application by the owner with acceptable justification. The following documents have to be submitted for provisional registration:

- Application form (Form No. RS/A1)
- Form of Authority (Form No. M.O. 812) for making and signing application and declaration, where necessary
- Declaration of Entitlement to own a ship registered in Hong Kong. Each owner must make a separate declaration when there is more than one owner of a ship.
- A fax or photocopy of the title document as required under paragraph 2.1(d)
- Certificate of Survey (paragraph 2.1(h)) or a photocopy of the ship’s current International Tonnage Certificate certified by any one of the following:
- The issuing authority of that certificate
• The shipowner

Or

• The representative person appointed in relation to the ship

• Certificate of Incorporation or Registration in Hong Kong of owner or Hong Kong Identity Card of owner, or a certified true copy of the company certificate or Hong Kong Identity Card

• Original or certified true copy of Certificate of Incorporation and Memorandum of Association of the representative person appointed in relation to the ship, where applicable

• Certificate or Declaration of Marking of Ship (Form No. RS/S1) completed by the Master of the ship or an authorized surveyor

• Certificate or evidence of deletion from previous registry as referred to under paragraph 2.1 (e)

5.3.3 Parallel registration

A ship on demise charter (bareboat charter) to a body corporation that is a qualified person (defined in section 5.3.1 above) can be on full or provisional registration. However, no dual registration is allowed. The registration is valid for the period of the demise charter, and any change to the owner or demise charterer will render the ship unable to be registered. The procedures for full or provisional registration of a vessel on demise charter will be the same as described in section 5.3.2 above as appropriate. In addition, the following documents will need to be submitted:

• Form of Authority for making and signing application and declaration by the demise charterer (Form No. M.O. 812), where necessary

• Original or certified true copy of Certificate of Incorporation or Registration of the demise charterer in Hong Kong

• Declaration of Entitlement to register a ship in Hong Kong by the demise charterer (Form No. RS/D6), together with a true and complete copy of the demise charter party made between the owner and the demise charterer

5.3.4 Requirements for officers and crew serving on vessels

There are no nationalities or residential requirements for the officers or crew members serving on Hong Kong-registered ships. The Mercantile Marine Office of the Marine Department registers local seafarers, regulates their employment terms and conditions on board ships of all flags, and supervises the employment and discharge of seafarers on Hong Kong ships.

All deck officers and marine engineer officers serving on Hong Kong-registered ships must hold either valid Certificates of Competency or licenses issued by the Marine Department. As a party to the STCW, Hong Kong carries out examinations and issues certificates of competencies to seafarers working on Hong Kong-registered ships and local vessels. Examinations are held regularly to suit the demand. Certificates of competencies are issued to those candidates who have passed the master, coxswain, deck officer and engineer examinations to operate ships trading locally and internationally. Licenses are also issued to seafarers whose certificates of competencies are issued by countries on the STCW White List to serve on Hong Kong-registered ships.

5.3.5 International conventions regarding registration

Hong Kong-registered ships are required to comply fully with the requirements of IMO and ILO conventions ratified by Hong Kong with respect to safety, protection of the marine environment, and health and welfare of the crew. In special circumstances, exemption from the conventions’ requirements may be granted, provided that safety as well as protection of the marine environment would not be jeopardized.

5.3.6 Special requirements or rules relating to registration

The registration of a mortgage must be in the specified form (Form No. RS/M1). Mortgages rank in priority according to the date and time when they are presented and accepted for registration and not according to the date of the actual mortgage instrument.
India

1. Tax

1.1 Tax facilities for shipping companies

1.1.1 Indian shipping companies

*Computation of taxable income*

- Indian shipping companies are assessed on a net-of-expenses basis.
- The expenses incurred for the purpose of the business are allowed as a deduction, subject to certain conditions.

*Mode of assessment by the Indian revenue authorities*

- Companies are required to file a tax return every year.
- Once the return has been filed, the Indian revenue authorities have the power to scrutinize it and determine whether the taxable income was calculated correctly.

1.1.2 Alternative tax regime for Indian companies: tonnage tax regime

*General*

Indian shipping companies have a choice between tonnage tax and normal corporate income tax.

*Provisions*

- The tonnage tax regime is optional. If the company does not opt specifically for the tonnage tax regime, it may continue to be governed by the normal provisions (net-of-expenses basis). But once opted into, the tonnage tax regime applies to the company for a period of 10 years. The company may, however, opt out of the regime in any subsequent year by furnishing a declaration in a prescribed form.
- The tonnage income is determined by aggregating the prescribed tonnage of each qualifying ship. The tonnage income is determined on a presumptive basis based on the tonnage of the qualifying ship. Once covered by the tonnage tax regime, receipts from qualifying shipping activities are not again taxed on actual income basis.
- The tonnage income since determined on a presumptive basis, no further deduction of expenses or depreciation or set off of loss can be claimed against the tonnage income.

The tonnage income so determined is taxed at the normal corporate tax rate applicable for that year. Thus, under the tonnage tax regime, tax is payable even if there is a loss in a particular year.

- The option to be governed by the provisions of the tonnage tax regime is available to qualifying companies. A qualifying company is a company that:
  - Is formed and registered under Indian corporate law
  - Has its place of effective management in India
  - Owns at least one qualifying ship
  - Has its main objective to carry on the business of operating qualifying ships

- A qualifying ship has been defined to include any seagoing vessel of 15 net tons or more that is registered under the Merchant Shipping Act, 1958, or
- A ship registered outside India with respect to which a license has been issued by the Director-General of Shipping under Sections 406 and 407 of the Merchant Shipping Act, 1958, and with respect to which a valid certificate indicating its net tonnage is in force subject to certain exclusions.

A company shall be regarded as operating a ship if it operates any ship, whether owned or chartered by the company, even in the event that only part of the ship is chartered in. However, a company is not regarded as the operator of a ship if the ship has been chartered out on bareboat charter-cum-demise terms or on bareboat charter terms for a period exceeding three years.

1 Place of effective management has been defined to mean a place where key management and commercial decisions that are necessary for the conduct of business of an entity as a whole are in substance made
Computation of tonnage income

- The tonnage income of a tonnage tax company shall be the aggregate of the tonnage income of each qualifying ship.
- The tonnage income of each qualifying ship shall be the daily tonnage income of each ship multiplied by the number of days in the previous year (or the number of days in part of the previous year in case the ship was operated by the company as a qualifying ship only for a part of the previous year).
- The daily tonnage income of a qualifying ship will be based on the net tonnage of the ship.

<table>
<thead>
<tr>
<th>Total net tonnage</th>
<th>Income per day INR (€)²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 1,000</td>
<td>70 (0.87) per 100 tons</td>
</tr>
<tr>
<td>1,001-10,000</td>
<td>700 (8.75) plus 53 (0.66) for every 100 tons exceeding 1,000 tons</td>
</tr>
<tr>
<td>10,001-25,000</td>
<td>5470 (68.38) plus 42 (0.52) for every 100 tons exceeding 10,000 tons</td>
</tr>
<tr>
<td>Exceeding 25,000</td>
<td>11,770 (147.13) plus 29 (0.36) for every 100 tons exceeding 25,000 tons</td>
</tr>
</tbody>
</table>

- Qualifying shipping income of a tonnage tax company has been defined as its profits from core activities and profits from incidental activities (limited to 0.25% of the turnover of core activities, and the balance income from incidental activities is subject to tax at normal rates).
- Income from non-qualifying ships of a tonnage tax company is to be computed in accordance with the normal provisions.
- There are also comprehensive provisions for the allocation of common costs, calculation of depreciation, set-off and exclusion of loss, among other things.
- The profits from the business of operating qualifying ships would not be taken into consideration for the purpose of computation of minimum alternate tax (a special regime of taxation imposed on the basis of accounting profits).

Procedure

- For opting under the tonnage tax regime, the application should be made to an appropriate authority within three months of the date of incorporation or the date on which a company becomes a qualifying company, as the case may be.
- An option in favor of the tonnage tax regime shall, after it has been approved, remain in force for 10 years from the date on which such option is exercised, but shall cease to have effect in certain specified circumstances.
- A qualifying company which opts out of the tonnage tax regime, or is excluded on account of any defaults, will not be eligible to opt in for the tonnage tax regime for a period of 10 years from the date of opting out or default, as the case may be.

Significant conditions

- The company is required to credit a minimum of 20% of its book profits to a tonnage tax reserve account.
- The tonnage tax reserve account is to be utilized within a period of eight years for the purpose of acquiring a new ship for the business or for the purpose of operating qualifying ships until the acquisition of a new ship.
- The company is required to comply with minimum training requirements.
- The company is required to maintain separate books of accounts.
- The net tonnage of the qualifying ships from “chartering in” operations should not exceed the prescribed tonnage limits noted above.

² Exchange rate: €1=INR 80
ceiling limit of 49%.

1.1.3 Nonresident companies

Computation of taxable income

Taxable income is determined on a presumptive basis, which is 7.5% of the following gross amounts:

- Amount paid or payable (including demurrage or handling charges) on account of the carriage of passengers, livestock, mail or goods shipped at any port in India
- Amount received or deemed to be received (including demurrage or handling charges) in India on account of the carriage of passengers, livestock, mail or goods shipped at any port outside India

Nonresident shipping companies have an option to invoke the beneficial provisions of the relevant tax treaty with India to determine their taxability. Further, nonresident vessel owners/operators providing services to an offshore (oil and gas) sector are taxed at 4% (excluding surcharge and cess) on presumptive basis of tax under the Income-tax Act.

Mode of assessment by the Indian revenue authorities

- A nonresident shipping company that carries passengers, livestock, mail or goods shipped at a port in India would, before departure from India, prepare and furnish the Indian revenue authorities with a return of the amount paid or payable on account of carriage of all passengers, livestock, mail or goods shipped at that port since the last arrival of the ship. In certain exceptional circumstances, the return may be filed within 30 days of the date of departure of the ship, provided that satisfactory arrangements have been made for the payment of taxes.
- Unless taxes are duly paid or satisfactory arrangements have been made for the payment of the same, customs authorities will not grant a port clearance certificate for the voyage.

Amendment in determining the residential status of a company

Previously, a company was regarded as a resident in India during a particular year if, (a) it was an Indian company or (b) the control and management of its affairs was wholly situated in India. However, vide Finance Act 2015, where the provisions determining residential status have been amended and now provide that a company would be treated as resident in India if it is an Indian company or if its Place of Effective Management (POEM) is in India in that particular year.

POEM has been defined to mean a place where key management and commercial decisions that are necessary for the conduct of business of an entity as a whole are in substance made.

Where POEM of a company is determined to be in India, then tax provisions as applicable to an Indian company shall apply. Recently, the Indian tax authority has issued the draft guidelines for determination of POEM for public comments, but they have not been finalized yet.

1.2 Tax facilities for seafarers

Indian Income-tax Act provisions

The tax incidence on seafarers in India depends on their residential status. Individuals are considered residents if they meet one of the following criteria:

- They reside in India for 182 days or more during the Indian tax year (1 April to 31 March).
- They reside in India for 60 days or more during the tax year and have resided in India for at least 365 days during the preceding four tax years.

In accordance with the law, a period of 60 days as referred to above is increased to 182 days with respect to a citizen of India who has left India in any previous year as a member of the crew of an Indian ship as defined under the Merchant Shipping Act, 1958.

Vide Finance Act 2015, an explanation has been inserted providing that period of stay of citizens of India and members of crew of a foreign-bound ship leaving India would be determined based on such rules as may be prescribed. Subsequent to the said insertion, Indian tax authority has issued rules providing the mechanism for computing period of stay of Indian citizens and members of crew for determining the residential status in
India. The two essential elements ascribed under the Rule are Continuous Discharge Certificate (CDC) i.e., notings made w.r.t sign on and sign off from ship, and the underlying voyage being considered as an ‘eligible voyage.’

Income from salaries received by or due to any individuals, being nonresident, as remuneration for services rendered in connection with their employment on a foreign ship, where their total stay in India does not exceed 90 days in a tax year, is exempt from tax.

The effective income tax rates for an individual are as follows:

<table>
<thead>
<tr>
<th>Total income of the individual INR (€)</th>
<th>Rate of income tax INR (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 250,000 (3,250)</td>
<td>Zero</td>
</tr>
<tr>
<td>250,001 (3,250) - 500,000 (6,500)</td>
<td>10% of the amount that exceeds 250,000 (3,250)</td>
</tr>
<tr>
<td>500,001 (6,500) - 1 million (13,000)</td>
<td>25,000 plus 20% of the amount that exceeds 500,000 (6,500)</td>
</tr>
<tr>
<td>Above 1 million (13,000)</td>
<td>125,000 plus 30% of the amount that exceeds 1,000,000 (13,000)</td>
</tr>
</tbody>
</table>

In addition, there is a surcharge at 12% of the total tax liability where total income exceeds INR10 million. Further, a cess of 3% is payable on the amount of income tax and surcharge. Furthermore, in the case of senior citizens (over 60 years of age and up to 80 years) and super senior citizens (over 80 years of age), the basic exemption limit has been increased to INR300,000 (€3,750) and INR500,000 (€6,250), respectively.

Certain deductions are prescribed in the Indian tax laws with respect to various contributions and investments made from salary that apply to seafarers as well as other individuals.

**Double taxation avoidance agreement**

In addition, dependent personal services under various double taxation avoidance agreements entered into by India generally state that remuneration derived with respect to an employment exercised aboard a ship or aircraft operated in international traffic by an enterprise of a contracting state may be taxed in that state. Accordingly, remuneration derived by such crew could be taxed in the contracting state in which the employee is a resident. However, the same will have to be analyzed based on the exact wording of the relevant tax treaty, as some other treaties may have a different rule.

**1.3 Tax treaties and place of effective management**

India has negotiated double taxation avoidance agreements with the following countries (**Comprehensive agreements**): Albania, Armenia, Australia, Austria, Bangladesh, Belarus, Belgium, Bhutan, Botswana, Brazil, Bulgaria, Canada, China, Columbia, Croatia, Cyprus, Czech Republic, Denmark, Egypt, Estonia, Ethiopia, Fiji, Finland, France, Georgia, Germany, Greece, Hungary, Iceland, Indonesia, Ireland, Israel, Italy, Japan, Jordan, Kazakhstan, Kenya, Korea (South), Kuwait, Kyrgyzstan, Latvia, Libya, Lithuania, Luxembourg, Macedonia, Malaysia, Malta, Mauritius, Mexico, Mongolia, Montenegro, Morocco, Myanmar, Mozambique, Namibia, Nepal, Netherlands, New Zealand, Norway, Oman, Philippines, Poland, Portugal, Qatar, Romania, Russian Federation, Saudi Arabia, Serbia, Singapore, Slovenia, South Africa, Spain, Sri Lanka, Sudan, Sweden, Switzerland, Syria, Tajikistan, Tanzania, Thailand, Trinidad and Tobago, Turkey, Turkmenistan, Uganda, Ukraine, United Arab Emirates, United Kingdom, United States, Uruguay, Uzbekistan, Vietnam and Zambia.

India has signed tax treaties with various countries most of which provide that profits derived from the operation of ships in international traffic will be taxed in one contracting state only. The profits concerned are wholly exempt from tax in the state of source and are taxed exclusively in the state in which the place of

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3 Exchange rate: €1=INR80.
effective management or place of residence of the enterprise engaged in international traffic is situated. Tax treaties with Spain, Sweden, the United Arab Emirates, the United Kingdom, the United States and several others, use “place of residence” as the criterion instead of “place of effective management.” However, India has signed certain tax treaties (e.g., with Bangladesh and Tanzania) that provide for source-based taxation, i.e., taxation in the state of source. Additionally India has signed certain other treaties (e.g., with Greece and Kenya) that provide for residence as well as source-based taxation. Accordingly, it may be relevant to consider the specific tax treaty to determine the taxation from operation of ships in international traffic.

Main issues regarding taxability of profits of the shipping companies in these tax treaties:

- Ascertaining the place of effective management where this criterion has been used in the tax treaty for determining the state to which the right to tax shipping profits has been conferred
- Ascertaining the place of residence where this criterion has been used in the tax treaty to determine the state to which the right to tax shipping profits has been conferred
- Identifying the scope of the profits derived from the operation of ships in international traffic (In accordance with the Organisation for Economic Co-operation and Development (OECD) Model Convention commentary, such profits include profits derived from not only the carriage of passengers or cargo, but also other auxiliary activities more or less closely connected with the direct operation of ships; for example, profits from the charter of ships, sale of tickets and leasing of containers. In this connection, some of the tax treaties, such as the agreement with the United States and the United Kingdom, specifically provide for the inclusion of the profits derived from certain activities within the scope of profit from the operation of ships in international traffic. Therefore, the scope of profits derived from the operation of ships, its inclusions and exclusions, needs to be evaluated with regard to the language of the applicable tax treaty.)

2. Indirect tax

2.1 Service tax

- Service tax is applicable on all services except for those that are covered in the “negative list of services” or “exempted list of services.” For this purpose, the term “service” is defined as any activity done for a consideration (excluding transfer of immovable property, a transaction involving money or actionable claim, and services provided by an employee to employer).
- Services covered in the negative list or exempted list of services are not liable to service tax.
- The generic rate of service tax applicable is 14%. In addition to 14%, the following two cesses are also applicable on provision of services:
  - Swachh Bharat cess at 0.5%
  - Krishi Kalyan cess at 0.5% (effective from 1 June 2016)

After considering the above stated cesses, the generic effective rate of service tax is 15%.
- Place of Provision of Services Rules, 2012 (PPOS Rules) have been introduced with effect from 1 July 2012 to determine the place of provision of service (PPOS) for any services. If the PPOS is in India, the service would be taxable. If the PPOS is outside India, service tax is not applicable.
- Further, if the PPOS for any service is outside India and if the following conditions are also satisfied, services qualify as “export”:
  - The service provider is located in taxable territory.
  - The service recipient is located outside India.
  - The service provided is a service other than in the negative list.
  - Payment is received in convertible foreign exchange.
- If the PPOS for any service is outside India and if the services do not qualify as export, CENVAT credit for service tax, excise duty and additional customs duty paid on inputs, capital goods and input
If the services qualify as “export,” the service provider should be eligible for a credit or refund of service tax, excise duty and additional customs duty paid on inputs, capital goods and input services.

- We have summarized below the applicability of services on the key services typically provided by shipping companies:

<table>
<thead>
<tr>
<th>Description of services provided</th>
<th>Applicability of service tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coastal transportation of goods by sea</td>
<td>Service tax is applicable on 30% of the total amount charged. Until 31 May 2016, the effective rate of service tax is 14.5% of 30%, or 4.35%. After 1 June 2016, it will be 15% of 30%, or 4.5%.</td>
</tr>
<tr>
<td>Transportation of goods by inland waterways</td>
<td>Services are covered in the negative list of services. Service tax is not applicable.</td>
</tr>
<tr>
<td>Transportation of goods by vessel from a place outside India up to the customs station of clearance in India</td>
<td>Position effective up to 31 May 2016 Services are covered in the negative list of services. Service tax is not applicable. CENVAT credit of service tax, excise duty and additional customs duty paid on inputs, capital goods and input services is not available.</td>
</tr>
<tr>
<td>Transportation of goods by vessel from a place in India to a destination outside India</td>
<td>The place of provision of such services would be outside India, since the destination of goods is outside India as per Rule 10 of the PPOS Rules, and, accordingly, service tax is not applicable. Additionally, services should qualify as “export” if the service recipient is outside India and payment is received in convertible foreign exchange. Credit or refund of service tax, excise duty and additional customs duty paid on inputs, capital goods and input services was available only if services qualified as export. If any of the above stated conditions were not</td>
</tr>
</tbody>
</table>
2.2 VAT/sales tax

- VAT/sales tax is applicable on sale of goods. Sale is defined to mean transfer of property in goods.
- Further, “sale” includes transfer of the right to use goods for a consideration. Similarly, the definition of “sale” under various state VAT laws also typically covers “transfer of right to use goods.” Transfer of the right to use goods is a deemed sale and is liable to VAT/sales tax.
- Based on judicial precedents, a position could be adopted that in the case of time-charter arrangements involving provision of a vessel and crew and where the effective control and possession of the vessel is not transferred to the charterer, VAT is not applicable.
- In case of bareboat-charter arrangements and cases where a vessel is provided without a crew and where effective control and possession of the vessel is transferred to the charterer, VAT/sales tax should be applicable.
2.3 **Excise duty**

- Excise duty is applicable on the manufacture of goods. The generic effective rate of excise duty is 12.5%. The excise duty rate depends on the classification of goods under the Indian Excise Tariff, which is aligned with the international Harmonised System of Nomenclature.
- Excise duty has been exempted on ships and vessels including cargo ships, cruise ships, dredgers, floating cranes, floating docks, and floating or submersible drilling or production platforms.

2.4 **Customs duty**

- Customs duty is applicable on import of goods into India. Customs duty comprises various duties such as Basic Customs Duty, Additional Customs Duty, Special Additional Customs Duty, Education Cess on Custom Duties, etc.
- The customs duty rate depends on the classification of goods under the Indian Excise Tariff, which is aligned with the international Harmonised System of Nomenclature. The generic effective rate of customs duty is 29.441%.
- Customs duty is exempt on import of the following types of ships:

<table>
<thead>
<tr>
<th>Customs chapter heading</th>
<th>Description of goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>8901</td>
<td>Cruise ships, excursion boats, ferry boats, cargo ships, barges and similar vessels for transport of persons or goods</td>
</tr>
<tr>
<td>8905 1000</td>
<td>Dredgers</td>
</tr>
</tbody>
</table>

- Customs duty is applicable on import of the following vessels:

<table>
<thead>
<tr>
<th>Customs chapter heading</th>
<th>Description of goods</th>
<th>Effective customs duty rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>8904</td>
<td>Tugs and pusher crafts</td>
<td>9.36%</td>
</tr>
<tr>
<td>8905 9010 and 8905 9090</td>
<td>Floating docks and other light vessels, and fire floats (other than dredgers), navigability of which is subsidiary to their main function</td>
<td>9.36%</td>
</tr>
<tr>
<td>8905 2000</td>
<td>Floating or submersible drilling or production platforms</td>
<td>14.71%</td>
</tr>
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- There is a custom duty exemption on capital goods, spares, equipment, consumables, etc. for repairs of ocean-going vessels by a ship repair unit registered with the Director General of Shipping (DGS).

2.5 **Goods and services tax**

Following the successful execution of the VAT legislations across all states, the Indian Ministry of Finance now proposes to implement a goods and services tax (GST) in India. GST will be a comprehensive “consumption tax” levied on the supply of all goods and services (except for a negative list) on a destination basis.

In order to introduce GST in India, an amendment to the Constitution of India is necessary to give powers to the Central Government to levy tax on sale of goods.

Constitution (122nd Amendment) Bill, 2014 for ushering in a GST was tabled in the Lok Sabha on 19 December 2014, post its approval by the Union Cabinet.

News reports suggest that it is Government’s endeavor to get bill passed in Budget 2016 Session of the Parliament and roll out GST on or before 1 April 2017.

The bill is the first positive step towards GST; it is fairly comprehensive in its coverage and provides a balanced configuration to the GST Council aligned with the interests of both Union and state governments.
Highlights of proposed Constitution (122nd Amendment) Bill, 2014

- The Constitution is proposed to be amended to introduce GST for conferring concurrent taxing powers on the Union as well as the States including Union Territories for levy of tax on every transaction of supply of goods and services.
- GST shall subsume various indirect taxes being levied by the Union and the state governments as under:
  - Central excise duty
  - Additional excise duties
  - Service tax
  - Countervailing duty and special additional customs duty
  - Central surcharges and cesses insofar as they relate to supply of goods and services
  - State VAT/sales tax
  - Entertainment tax (other than the tax levied by the local bodies)
  - CST
  - Octroi and entry tax
  - Purchase tax
  - Luxury tax
  - Taxes on lottery, betting and gambling
  - State surcharges and cesses in so far as they relate to supply of goods and services
- It is proposed that GST would cover all products except alcohol for human consumption. For petroleum products, while enabling provisions are created, levy of GST is to be made effective at a future date.
- It is proposed that an integrated GST (IGST) would apply on interstate transactions of goods and services (including imports). IGST shall be levied and collected by the Central Government, to be apportioned between the Union and States.
- “Services” have been defined very broadly to mean “anything other than goods.” There is no specific clarification of characterization of transactions in intangibles and composite supplies such as works contract.
- GST Council to formulate the principles for determining the place of supply.

Next steps for introduction of GST

- Amendment of the Constitution is being initiated by the introduction of a bill in both Houses of Parliament. For its passage, it will require not less than a two-thirds majority of the members present and voting in the Lok Sabha and Rajya Sabha.
- The bill has already been passed by the Lok Sabha. The bill is not yet passed by the Rajya Sabha.
- Once the bill is passed by both the houses of the Parliament, the bill is also required to be ratified by the Legislatures of no less than one-half of the States. It shall be thereafter presented to the President, who shall give his assent to the bill, and thereupon the Constitution shall stand amended.
- Passing the Constitutional amendment bill will pave the way for introduction of GST in India.
- Once the Bill is passed by more than one-half of the State legislatures, the President of India would need to give assent to the Bill after which the Bill would become an Act.
- Within 60 days of the Presidential assent, a GST Council would need to be formed. The GST Council will consist of the Union Finance Minister, Union Minister of State for Revenue, and state Finance Ministers.
- GST Council to make recommendations on aspects including:
  - Taxable base, exempt products
  - Principles of levy, apportionment of IGST, principles governing place of supply
  - Threshold limit
  - Rates including floor rates with bands of GST
  - Special rate/s for specified period to raise additional resources during natural calamity
- Special provisions for Arunachal Pradesh, Assam, J&K, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, HP, and Uttarakhand
- Date for application of GST to petroleum products
  • Council decisions are recommendations, which need to be ratified by Parliament and State Legislatures.
  • Based on recommendations of the GST Council, the Central and State Governments would frame the GST Acts and Rules.

3. Corporate structure

3.1. Most commonly used legal structures for shipping activities
In practice, the corporate entity (i.e., limited liability company) is the preferred structure.

3.2. Taxation of profit distribution
For FY15 (i.e., with effect from 1 October 2014), a dividend distribution tax at an approximate rate of 19.995% (including surcharge and cess) is payable by domestic companies. Shareholders are exempt from tax on dividends.

The Indian Government recently proposed 10% tax for resident individuals, HUF and firms which receive dividends in excess of INR 1 million.

4. Grants and incentives

4.1. Specific and/or general subsidies available to shipping companies
In the recent past, the government has taken several steps to promote the shipping industry. For instance, while selling a vessel to foreign parties, ship owners are allowed to retain sale proceeds abroad and use them for new purchases. Furthermore, the government has placed the import of new vessels (by way of new buildings or construction) under the open general license. In addition, technical clearance and reasonability of the price are not checked; nevertheless, the vessel is mandatorily surveyed at the time of registration by the Principal Officer, Mercantile Maritime Department (PO, MMD). Any deficiency in the vessel has to be corrected before registration.

The government has allowed 100% foreign direct investment (FDI) in the acquisition of ships. In addition, it has brought the acquisition of all types of ships under the ambit of the open general license (OGL).

5. General information about the shipping industry
For industry outlook and insights of the shipping industry, reference can be drawn to the information available in the following documents released by the Indian Government/Industry Group from time to time:

The Department of Industrial Policy and Promotion (DIPP) website states that the Government of India has allowed 100% Foreign Direct Investment (FDI) in the shipping sector to attract investment for the growth of the shipping sector (http://dipp.nic.in/English/Default.aspx).
Further information about the shipping sector is available on the following websites: Ministry of Shipping (http://shipping.gov.in/) and Press Information Bureau (PIB), Government of India (http://pib.nic.in/) read with the following regulations:


1. **Tax**

1.1 **Tax facilities for shipping companies**

   In Indonesia, a value-added tax (VAT) exemption is applicable to:
   
   - Importation and local procurement of ocean vessels, river transport vessels, lake vessels and ferries, pilot boats, tugboats, fishing vessels, barges, and spare parts, as well as navigational safety equipment or human safety equipment by national commercial shipping companies or national fishing companies for operational activities.
   
   - Receipt of services by national commercial shipping companies, national fishing companies, national seaport operators or national river, lake crossing and ferry operators covering vessel charter, port services, tugboat services, piloting, berthing and anchoring services, and vessel maintenance or docking services.

1.2 **Tax facilities for seafarers**

   There are no tax facilities for seafarers.

1.3 **Tax treaties**

   The Indonesian government has ratified tax treaties with the following jurisdictions: Algeria, Australia, Austria, Bangladesh, Belgium, Brunei Darussalam, Bulgaria, Canada, China, Croatia, Czech Republic, Denmark, Egypt, Finland, France, Germany, Hong Kong, Hungary, India, Italy, Iran, Japan, Jordan, Kuwait, Luxembourg, Morocco, Mexico, Mongolia, Netherlands, New Zealand, North Korea, Norway, Pakistan, Philippines, Poland, Portugal, Qatar, Romania, Russian Federation, Seychelles, Singapore, Slovak Republic, South Africa, South Korea (ROK), Spain, Sri Lanka, Sudan, Suriname, Sweden, Switzerland, Syria, Taiwan, Thailand, Tunisia, Turkey, Ukraine, United Arab Emirates, United Kingdom, United States, Uzbekistan, Venezuela and Vietnam.

   The majority of tax treaties provide relief on income of non-Indonesian shipping companies from shipping operations in international traffic.

1.4 **Freight taxes**

   No freight taxes apply in Indonesia.

1.5 **Special vessel registration tax benefits for the shipowner**

   The registration of vessels in Indonesia does not entail any special tax benefits for the shipowner.

1.6 **Changes to tax law anticipated in the near future**

   No changes are anticipated.

1.7 **Tonnage tax regime**

   Indonesia does not have a tonnage tax regime.

2. **Human capital**

2.1 **Formalities for hiring personnel**

   In general, national labor law provides comments on several employment issues, such as:
   
   - General provisions
   - Basis, principle and objective
   - Equal opportunity and treatment
   - Manpower planning and information
   - Vocational training
2.2 National labor law
The current labor law is broadly applicable to all employment affairs in Indonesia, including crew members in the shipping industry.

2.3 Regulations on employing personnel
In general, minimum wages are regulated and adapted on a routine basis by the provincial government.

2.4 Collective labor agreements
Collective labor agreements between seafarers and entrepreneurs are reviewed annually. The agreements must be reported to the Ministry of Manpower and Transmigration and harbor masters.

2.5 Treaties relating to social security contributions
Registration of local employees in the employee social security insurance program is mandatory for employers and employees. The program consists of health insurance and workers' social insurance, which are administered by Badan Penyelenggara Jasa Sosial (BPJS). The health insurance is effective as per 1 January 2015, whereby all employees must be registered. The expatriate employees are also required to register for health insurance if they have worked for more than six months in Indonesia. For the workers' social insurance, it is effective from 1 July 2015.

2.6 Manning issues with flying the Indonesian flag
There is a limitation on employing foreign seafarers for vessels flying the Indonesian flag, and certain positions are reserved for local employees only.

3. Corporate structure
3.1 Most commonly used legal structures for shipping activities
The most commonly used legal structures for the operation of shipping activities are a limited liability company and a branch of a foreign shipping company (permanent establishment). Specific foreign ownership is regulated. In accordance with Presidential Regulation No. 39/2014 regarding the lists of business fields closed to capital investment and those that are open but subject to requirements, the maximum limit for foreign ownership in a shipping service is 49%.

The corporate income tax of a shipping company is calculated based on an estimated profit. The corporate income tax payable by a domestic shipping company (i.e., a company established under Indonesian law) is 1.2% of its gross income. Gross income is defined as income received or earned by a domestic shipping company from transportation of passengers or cargo from one port to another port in Indonesia or from one port in Indonesia to another port outside of Indonesia and vice versa. The corporate income tax payable by a permanent establishment of a foreign shipping company is 2.64% of its gross income. Gross income is defined as income received or earned by a foreign shipping company from transportation of passengers or cargo from one port to another port in Indonesia or from one port in Indonesia to another port overseas. The effective tax rate is likely to change, affected by the reduction of the corporate tax rate introduced under the 2008 amendment of the Income Tax Law. Although the effective tax rate is likely to change due to the
3.2 Taxation of profit distribution

Profit distributions in the form of dividends to corporate shareholders domiciled in Indonesia may be exempt from tax provided the dividend is paid out of retained earnings and the company receiving the dividend owns at least 25% of the shares of the company paying the dividend. No withholding tax applies to a tax-exempt dividend. If the conditions are not satisfied, the dividend is taxable in the hands of the corporate shareholders, and the company paying the dividend is required to deduct withholding tax at a rate of 15%, which represents prepaid tax of the shareholders. A dividend distributed to an individual resident shareholder is subject to income tax at a rate of 10%. This tax is final in nature.

If the shareholders are nonresidents (either individual or corporate shareholders), the applicable dividend withholding tax rate is 20% or a reduced rate, depending on the relevant double tax treaty, provided the shareholder is the beneficial owner of the dividend income and a certificate of tax residence of the foreign shareholder is provided.

Net income after tax of a permanent establishment is, in general, subject to 20% withholding tax (branch profit tax). For shipping industries, this is included in the 2.64% income tax as mentioned in section 3.1 above.

4. Grants and incentives

4.1 Specific and/or general subsidies available to shipping companies

No subsidies are available.

4.2 Investment incentives for shipping companies and the shipbuilding industry

The investment incentives for shipping companies and/or the shipbuilding industry established under the recommendation of the Foreign Investment Coordination Board are as follows:

- Starting 1 October 2015, the Government issued a policy to accelerate the investment of particular projects, known as Investment License. The Investment License offers various incentives, such as:
  - Facility to carry out construction without having IMB and Environmental Assessment Permit. The IMB and Environmental Assessment Permit may proceed simultaneously with the building construction.
  - Facility of faster processing the Investment License application. The decision of Investment License, whether it is approved or rejected, can be determined within three working hours since the completed application is submitted.
- Regulation of Head of Investment Coordinating Board No. 14 year 2015 stipulates that the following criteria to obtain Investment License:
  - Minimum investment value of IDR100 billion;
  - Absorption of Indonesian employees of at least 1,000 persons.
- Exemption or relief from import duty and levies:
  - On the importation of capital goods, e.g., machinery, equipment, spare parts and auxiliary components
  - On the importation of raw materials for the purpose of two years’ full production
- Exemption from the transfer of ownership fee for ship registration (deed or certificate) made for the first time in Indonesia.

Regulation of the Minister of Finance No. 176 year 2009 stipulates that only public transportation service shipping companies are granted such exemption or relief from import duty and levies.

Tax Allowance Incentive

Tax incentives under the Tax Allowance Incentive are granted to certain qualifying resident companies investing in certain types of businesses or regions. The Tax Allowance Incentive consists of the following:

- Accelerated depreciation and amortization.
• Extended period of 10 years for the carryforward of a tax loss (it is normally 5 years), subject to certain conditions.
• Reduced tax rate of 10% (or lower rate under a double tax treaty) for dividends paid to nonresidents.
• Investment allowance in the form of reduction of net income by 30% of the amount invested in land and buildings and plant and equipment. This allowance is to be claimed at a rate of 5% each year over a six-year period.

To qualify for the above tax incentives, the investment must be a new investment or an investment for the purpose of expanding a current business. Under a government regulation, 66 categories of business sectors and 77 other categories of industries in certain areas may qualify for the incentives. This includes the manufacturing or assembling of certain types of ships and boats, as well as repair and maintenance of certain types of vessels. The designated areas and provinces are generally outside Java and primarily the northeastern provinces and other provinces located in Sulawesi.

Certain restrictions apply to the use and transfer of fixed assets owned by companies that have applied for the incentive. Those fixed assets cannot be used other than for the purpose to apply for the incentive. Furthermore, once the incentives are granted, the fixed assets cannot be transferred for a period of six years starting from when the commercial production began or for the prescribed useful life for tax purpose.

The approval is evaluated within two years of being granted. A monitoring team will be established for this purpose. The incentives will be revoked and a penalty imposed if these rules are violated.

**Tax Holiday Incentive**

Certain taxpayers engaged in “pioneer industry” may seek a tax incentive commonly known as the Tax Holiday incentive, which was introduced in 2011 and renewed in August 2015. The Tax Holiday incentive offers a corporate income tax reduction from 10% up to a maximum of 100% (or, effectively tax exemption) for a period of 5 years to 20 years from commencement of commercial production. An extended period of the tax incentive for up to 20 years may be granted by the Minister of Finance upon consideration of maintaining the competitiveness of the national industry and the strategic value of certain industries.

To qualify for the Tax Holiday incentive, taxpayers must:

• Be a new registered taxpayer
• Be engaged in a “pioneer industry”
• Have new investment plans approved by the relevant authority at the minimum amount of IDR1 trillion (approximately USD75 million)
• Satisfy the thin capitalization ratio required by the Minister of Finance for income tax purpose
• Submit a statement confirming the ability to deposit at least 10% of the total investment plan in the Indonesian banking system without any withdrawal until realization of their investment
• Be in the form of an Indonesian legal entity established after 15 August 2011

Currently, nine sectors qualify as pioneer industries:

1. Upstream metal industry
2. Oil refinery industry
3. Oil and gas-based organic chemical producing industry
4. Machinery industry that produces industrial machines
5. Processing industry in agriculture, forestry and fishery products
6. Telecommunication, information and communication industry
7. Marine transportation industry
8. Processing industry in Special Economic Zone (KEK)
9. Economic infrastructure other than those under Government Partnership with Business Entities (KPBU)

Taxpayers that have received tax incentives for investments in certain types of businesses or in certain regions are not eligible for the Tax Holiday incentive and vice versa.
A recommendation from the head of the Coordinating Board for Capital Investment is required for obtaining the Tax Holiday incentive. The recommendation should be submitted before 15 August 2018.

4.3 **Special incentives for environmental awareness**
No such incentives are available.

4.4 **Issues with operating the vessels**
Regulation of the Minister of Transportation No. KM20 year 2006 stipulates that Indonesian-flagged vessels with a gross tonnage (GT) of 100 or higher with the capacity of 250 PK or more should obtain certification of vessels classification, either with the Indonesian Classifications Bureau or another foreign classification bureau that is a member of the International Association of Classification Society (IACS). The certification of vessels classification is a main requirement and serves as a basis to issue other certifications as follows:

- **Serifikat Garis Muat Kapal** (Load Lines Certificate), which is regulated in Minister of Transportation Regulation No. KM.03 Year 2005
- **Sertifikat Manajemen Keselamatan** (Safety Management Certificate), which is regulated on Minister of Transportation Regulation No. PM 45 Year 2012
- **Sertifikat Keterampilan** (Skills Certificate) for crew of vessels to conduct prevention of pollution from ships, which is regulated in Minister of Transportation Regulation No. PM 58 Year 2013
- **Surat Ukur Dalam Negeri** (Domestic Tonnage Certificate) or **Surat Ukur Internasional** (International Tonnage Certificate), which is regulated in Minister of Transportation Regulation No. PM 8 Year 2013

Foreign-flagged vessels are permitted to operate in international routes. Domestic routes are only permitted to be operated by Indonesian national shipping companies with Indonesian-flagged vessels.

Government Regulation No. 20/2010 regarding goods transportation, which was amended by Government Regulation No. 22/2011 regarding water transportation, states that a foreign-flagged vessel is still allowed to carry out freight activities in Indonesian territorial waters but not including passenger and/or goods transportation activities and only on condition that Indonesian-flagged vessels are not available or not available in sufficient numbers. Based on Ministry of Transportation Regulation No. 48/2011 (the implementation of Government Regulation No. 22/2011), foreign-flagged vessels performing activities mentioned above must have permission from the Ministry of Transportation. Additionally, the operation of the foreign-flagged vessel must be under the guidance of an Indonesian naval or shipping company. Permits for the use of foreign-flagged vessels are provided for a maximum period of three months and can be extended after evaluation.

The following are the activities for which the use of foreign-flagged vessels is allowed (based on Attachment Number II of Ministry of Transportation Regulation No. 48 year 2011):

- Oil and gas survey (until December 2014) including:
  - Seismic survey
  - Geophysics survey
  - Geotechnical survey
- Drilling (until December 2015) including the activities performed in:
  - Jackup rig
  - Semisubmersible rig
  - Deepwater drill ship
  - Tender assist rig
  - Swamp barge rig
- Offshore construction including the activities performed in:
  - Derrick/crane, pipe/cable/subsea umbilical riser flexible (SURF) laying barge or vessel (until December 2013)
• Diving support vessel (expired December 2012)
• Offshore operations support (expired December 2012) including the activities performed in:
  • Anchor handling tug supply vessel more than 5,000 bhp with dynamic position (DP2/DP3)
  • Platform supply vessel
  • Diving support vessel
• Dredging (until December 2013) including the activities performed in:
  • Drag-head suction hopper dredger
  • Trailing suction hopper dredger
• Salvage and underwater works (until December 2013) including the activities performed in:
  • Heavy floating crane
  • Heavy crane barge
  • Survey salvage

4.5 Major changes in shipping subsidy legislation in the near future
No subsidies are available, nor are any likely to appear in the near future.

5. General information

5.1 Infrastructure

<table>
<thead>
<tr>
<th>Islands</th>
<th>Provinces</th>
<th>Ports</th>
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<tbody>
<tr>
<td>Irian Jaya</td>
<td>Irian Jaya</td>
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<td>Jakarta</td>
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<td>Lampung</td>
<td>Panjang</td>
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</tbody>
</table>
5.1.1 Major ports

5.1.2 Port facilities
The following port facilities are available:
• Maintenance and repair
• Docking
• Storage
• Cranes for every size of vessel

5.1.3 Support services for the shipping industry
The following support services are available:
• Insurance brokers for the shipping industry
• Logistics for shipping

5.1.4 Maritime education
Maritime education is provided by:
• College of Maritime Science (Sekolah Tinggi Ilmu Pelayaran), previously Maritime Experts Education and Training (Pendidikan Dan Latihan ahli Pelayaran), in Jakarta
• Polytechnic of Maritime Science (Politeknik Ilmu Pelayaran), previously Maritime Education and Training School (Balai Pendidikan Dan Latihan Pelayaran), in Semarang and Ujung Pandang

These schools are administered under the education and training division of the Ministry of Transportation.

5.2 Safety and environmental issues

5.2.1 Implementation of the International Safety Management Code on board vessels
Compliance with the requirements of the International Safety Management (ISM) Code by shipping companies is required in Indonesia. The Indonesian government will issue two documents for shipping companies that comply with the ISM Code: the document of compliance (DOC) and the safety management certificate (SMC). These will be issued after the shipping companies pass an audit performed by the appropriate authority.

5.2.2 Safety rules regarding manning
Industry safety rules concerning manning are considered by some in the industry as less strict in Indonesia than in other countries.

5.2.3 Special regulations on safety and the environment
Articles 35, 36, 65 and 66 of Government Regulation No. 21/1992, which govern the maritime industry, regulate safety and the environment in the area of shipping. Government Regulation No. 21/2010 is the new regulation regarding maritime environment safety; it does not automatically cancel the previous regulation as long as the previous regulation is not in conflict with the new regulation.

5.3 Registration

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<th>Islands</th>
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<td>Sumatra</td>
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<td>West Sumatra</td>
<td>Teluk Bayau</td>
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</table>
5.3.1 **Nationality and registration requirements**
The following are criteria for a vessel that can obtain the Indonesian flag:

- Sized GT 175 or more is proved by *Surat Laut* (Sea Shipping Letter);
- Sized from GT 7 and less than GT 175 is proved by *Pas Besar* (Large Vessel Pass Certificate);
- Sized less than GT 7 is proved by *Pas Kecil* (Small Vessel Pass Certificate)

The above Indonesian flag's vessel can be registered for its ownership with the requirements as follows; the ships must:

- Have a gross tonnage of at least 7 GT
- Be owned by an Indonesian citizen or a corporation established in Indonesia and under Indonesian law
- Be owned by an Indonesian legal entity in the form of a joint venture company with the majority of shares owned by Indonesian citizens

5.3.2 **Ship registration procedure**
Ownership can be registered at the head office of the Directorate General of Sea Transportation, supported by the following documents:

- Certificate of ownership
- Evidence of owner's identity
- Ship measurement certificate
- Payment evidence for the transfer duty
- De-registration or cancellation letter for ships registered in other countries

5.3.3 **Parallel registration**
Parallel registration is possible. There are no special rules regarding parallel registration.

5.3.4 **Requirements for officers and crew serving on vessels**
Officers and crew serving on vessels are required to have certain seafarer certificates from the relevant authorities (harbor master or port administration).

5.3.5 **International conventions regarding registration**
Indonesia follows international conventions for shipping registration.

5.3.6 **Special requirements or rules relating to registration**
Information is not available.

5.4 **Implementation of cabotage rule and the imposition regulations regarding national shipping industry (Law No. 17 year 2008 regarding shipping)**

5.4.1 **Trade**
Inter-seaport transport of goods or freight in Indonesia must be carried out by Indonesian-flagged vessels of national shipping companies.

5.4.2 **Finance**
- Tax: The existing tax facilities provided to the national shipping industry will likely be improved, and penalties are expected to be imposed on national shipping companies that have already received incentives but are making investments in other sectors.
- Finance institutions: Support will likely be provided to national banking institutions and other non-bank finance institutions. Proper funding schemes are anticipated to be set up for the national shipping industry.
- Insurance: Each vessel, including people, goods and freight, should be fully insured.

5.4.3 **Communication**
- Sea transportation: The existing system is expected to be improved in all aspects.
• Port: Indonesia will likely improve and develop the existing structure and infrastructure to achieve an optimal service level for the port and facilities.

5.4.4 Industry
The Indonesian shipping industry is expected to develop and continue to improve.

5.4.5 Energy and mineral resources
The availability of fuel for vessel's operation is guaranteed to be fulfilled.

5.4.6 Education and training
The development of educational and training centers is an issue receiving much attention.
Ireland

1. Tax

1.1 Tax facilities for shipping companies

1.1.1 Tonnage tax regime

Introduction

Ireland received formal approval for its tonnage tax regime from the European Union (EU) in December 2002. As a result, effective 1 January 2003, qualifying companies involved in international shipping activities have the option to remain subject to the normal tax regime in Ireland (see section 1.1.13), i.e., corporation tax of 12.5% on taxable profits, or they may elect to be taxed under the tonnage tax regime.

A qualifying company is a company that is subject to Irish corporation tax, operates qualifying ships, and carries on the strategic and commercial management of those ships in Ireland.

Irish-resident shipping companies that are shipowners, charterers or ship managers in receipt of “relevant shipping income” can qualify for the regime. Shipping companies electing into the regime are not assessed for tax on their shipping profits but instead on “notional” profit based on the net tonnage of the owned or chartered vessels operated by the company. The tonnage tax regime only applies to profits from qualifying shipping activities.

Relevant shipping income

Relevant shipping income means a company’s income from:

- The carriage of passengers by sea in a qualifying ship operated by the company
- The carriage of cargo by sea in a qualifying ship operated by the company
- Towage, salvage or other marine assistance by a qualifying ship operated by the company, excluding income from any such work undertaken in a port or an area under the jurisdiction of a port authority
- Transport in connection with other services of a kind necessarily provided at sea by a qualifying ship operated by the company
- The provision on board a qualifying ship operated by the company of goods or services ancillary to the carriage of passengers or cargo, but only to the extent that such goods or services are provided for consumption on board the qualifying ship
- The granting of rights by virtue of which another person provides or will provide such ancillary services on board a qualifying ship operated by the company
- Other ship-related activities that are a necessary and integral part of the business of operating the company’s qualifying ships
- The charter of a qualifying ship for use for the carriage by sea of passengers and cargo where the operation of the ship and the crew of the ship remain under the direction and control of the company
- The provision of ship management services for qualifying ships operated by the company
- Certain dividends from overseas qualifying companies
- Foreign currency gains related to the tonnage tax trade

Generally, investment income is not treated as relevant shipping income.

The Irish Revenue, in its Tax Briefing Issue 65 dated December 2006, provided clarification as to whether income from the following specific activities can be included as relevant shipping income:

- Forward freight agreements (FFAs) – Income from FFAs may be included if the agreements are used for hedging purposes only (i.e., to hedge against rate fluctuations in the company’s tonnage tax trade, rather than speculative purposes) and if the agreements relate at all times to contracts undertaken by the company using its own qualifying ships or qualifying ships that have been chartered in.
- Contracts of affreightment (COAs) – Income from COAs may be included provided that the company uses its own qualifying ships or qualifying ships that have been chartered in and that “vessels of an
excluded kind” are excluded under tonnage tax arrangements.

- Foreign currency gains – As noted above, foreign currency gains related to the tonnage tax trade may be included. However, income from interest rate swaps does not qualify.

**Qualifying ship**

A qualifying ship is a self-propelled, seagoing vessel of 100 tons or more gross tonnage that is certificated for navigation at sea by the competent authority of any country or territory. Certain vessels, such as fishing vessels, harbor ferries, offshore installations, dredgers and sport/recreational vessels are excluded from being a qualifying ship.

**Calculation of tonnage tax profits**

Notional profit is calculated as follows:

- Net tonnage of each vessel is broken down into 100-ton increments, and the following daily rates are applied to each increment:

<table>
<thead>
<tr>
<th>Total net tonnage</th>
<th>Daily rate (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 1,000 net tons</td>
<td>$1.00</td>
</tr>
<tr>
<td>Between 1,000 and 10,000 net tons</td>
<td>$0.75</td>
</tr>
<tr>
<td>Between 10,000 and 25,000 net tons</td>
<td>$0.50</td>
</tr>
<tr>
<td>Above 25,000 net tons</td>
<td>$0.25</td>
</tr>
</tbody>
</table>

- Sample calculation for a 19,500 net ton vessel:

  1,000 net tons: \( \frac{1,000}{100} = 10 \times 1.00 \times 365 = 3,650.00 \) €

  9,000 net tons: \( \frac{9,000}{100} = 90 \times 0.75 \times 365 = 24,637.50 \) €

  9,500 net tons: \( \frac{9,500}{100} = 95 \times 0.50 \times 365 = 17,337.50 \) €

  Annual taxable tonnage profit: €45,625.00

  - The Irish corporation tax rate of 12.5% applied to calculate the tax bill for the vessel: €5,703.13

Deductions are not available from these fixed amounts for normal trade deductions, e.g., expenses or capital allowances.

**Exemption from capital gains tax**

Relief is provided from capital gains tax (CGT) on the disposal of assets for the period for which the asset was used for the purposes of the company’s tonnage tax trade. An apportionment is made of any capital gain or loss between the time in which the asset was within the company’s tonnage tax trade and the time outside it. Apportionments are also made where the assets were not used throughout the entire period of ownership in the tonnage tax activity or where they are partly used for a tonnage tax activity and partly for a non-tonnage tax activity.

**Transfer pricing**

There are transfer pricing provisions to ensure that transactions between a company within the tonnage tax regime and related companies are at arm’s length. In addition, where a company carries on tonnage tax activities and other activities, arm’s-length rules apply to ensure that a disproportionate amount of expense is not allocated to the other activities.

**Election into tonnage tax regime**

To benefit from the tonnage tax regime, an election must be made to the Irish Revenue. An election may be
made if a company becomes a qualifying company where it had not previously been a qualifying company. The election must be made within 36 months of the company becoming a qualifying company. A tonnage tax election shall take effect from the beginning of the accounting period in which it is made.

If one qualifying company in a group makes an election to enter the tonnage tax regime, all qualifying companies within that group must also enter the regime.

Once an election is made to enter the tonnage tax regime, it remains in force for 10 years. If a company opts out of the tonnage tax regime before the expiry of the 10-year period, it cannot re-enter the tonnage tax regime for a period of 10 years. A clawback of CGT relief obtained on the sale of a vessel may also occur where the company ceases to be a tonnage tax company.

Benefits of the tonnage tax regime include:
- The regime has an attractive 12.5% corporation tax rate.
- A wide range of income qualifies.
- The sales of vessels and other chargeable assets used for tonnage tax activities are exempt from CGT.
- Ship management companies qualify, i.e., there is no ownership requirement.
- Shipowners and charterers qualify.
- There are no restrictions on leasing or financing to an Irish tonnage tax company.
- There are no training requirements.
- There is no vessel registration requirement.
- Election into the regime secures tonnage tax benefits for a period of 10 years, and qualifying companies can re-elect to ensure that benefits continue for a further 10 years following the expiry of the previous period.

**Finance Act 2006 changes**

A number of amendments were introduced as a result of the Finance Act 2006. The most significant change was the proposed removal of the requirement that not more than 75% of fleet tonnage be chartered in. However, this proposal was subject to a commencement order by the Minister for Finance. Such a commencement order has not been introduced, and as such, the proposed new rule has not been adopted into Irish legislation. Therefore, the requirement remains that not more than 75% of fleet tonnage be chartered in.

To enter the tonnage tax regime, forms prescribed by the Irish Revenue must be completed, and the following information must be included with any tonnage tax election:
- Documentation of legal status, memorandum and articles of association, and certificate of incorporation of the company
- Business plans or similar documents of the company
- The name and address of each of the directors of the company
- The name and address of each of the beneficial shareholders of the company and the number and class of shares held by each
- Details of the qualifying ships owned or leased by the company
- Particulars of how the strategic and commercial management of the qualifying ships is carried on by the company in Ireland
- In the case of a group election, particulars of all the companies in the group, their respective shareholdings and the flow of funds between all of the companies in the group

**Finance Act 2015 changes**

The Finance Act 2015 has not introduced any changes to the existing Irish tonnage tax regime.

### 1.1.2 Section 110 regime

Ireland has a specific tax regime, referred to as the "Section 110" regime after the section of the Irish tax code to which it relates, which facilitates the tax-efficient holding and managing of certain financial assets, commodities, and plant and machinery. The regime was initially targeted at securitization transactions but
has since been extended to apply to a much broader range of activities, including holding and managing shipping assets.

Section 110 provides a myriad of advantages both in relation to the company that has elected to be taxed in accordance with Section 110 (having met certain qualifying conditions) and to the investors and owners:

- The rules governing a Section 110 company are, with certain exceptions, fully embedded in the Irish tax code. A tax ruling from the Irish tax authorities is not required to confirm the tax treatment.
- While a Section 110 company is subject to tax in Ireland, it is possible, through proper structuring, to ensure effective tax neutrality through a variety of mechanisms. For example, a corporation tax deduction is specifically allowed for the payment of profit-dependent interest by the Section 110 company in certain circumstances (unique within the Irish tax code).
- There are no thin capitalization rules to limit the deductibility of interest paid by a Section 110 company.
- There are wide exemptions from Irish withholding tax on payments of interest and other payments by a Section 110 company.
- A Section 110 company is a regular Irish resident company that is subject to tax in Ireland and, as such, should be entitled to access to Ireland’s wide treaty network.

Irish and non-Irish investment funds, private equity groups, and leasing companies use Section 110 companies to hold transportation assets (e.g., aircraft, ships) with a view to achieving access to Ireland’s tax treaty network on a tax-efficient basis.

### 1.1.13 Corporation tax – general

Companies that do not opt into the tonnage tax regime are subject to the normal corporation tax regime in Ireland.

The tax rate applicable to trading profits is 12.5%. Non-trading income, e.g., investment income, is subject to Irish corporation tax at a rate of 25%.

Ireland can be an attractive location from which to finance the acquisition of vessels. If structured properly, the finance company can obtain capital allowances on the ship and a tax deduction for interest on any borrowings. Further, the profits of the finance company, assuming it is carrying on a trade, are subject to corporation tax at 12.5%. These benefits can significantly reduce the overall cost of financing.

### 1.1.4 Value-added tax

The supply, modification, repair, maintenance and hiring of seagoing vessels of a gross tonnage of more than 15 tons that are vessels used or to be used for the carriage of passengers for reward, for the purposes of a sea fishing business, for commercial or industrial purposes, and for rescue or assistance at sea are zero-rated for value-added tax (VAT) purposes.

Since 1 January 2010, the place of supply of leasing services by an Irish lessor to a non-Irish business customer is where the customer is established.

### 1.1.5 Stamp duty

Instruments for the sale, transfer or other disposition, either absolutely or by way of mortgage or otherwise, of any ship or any part, interest, share or property of or in any ship or vessel are exempt from stamp duty.

### 1.2 Tax relief for seafarers

A seafarer relief of €6,350 is available to individuals against their seafaring income. To obtain this relief, the seafarer must be at sea on a voyage on a seagoing ship to or from a foreign port for at least 161 days in any particular tax year.

A seagoing ship means a ship that is registered in an EU Member State and is used solely for the trade of carrying passengers or cargo by sea for reward. A mobile or fixed installation in foreign waters may be treated as a foreign port for this purpose.

Wage costs are tax-deductible for the employer.
1.3 Tax treaties
Ireland has an extensive network of 72 tax treaties, most of which are based on the Organisation for Economic Co-operation and Development (OECD) model treaty for the avoidance of double taxation.

Ireland has a tax treaty with the following jurisdictions:
Albania, Armenia, Australia, Austria, Bahrain, Belarus, Belgium, Bosnia and Herzegovina, Bulgaria, Canada, Chile, China, Croatia, Cyprus, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Georgia, Germany, Greece, Hong Kong, Hungary, Iceland, India, Israel, Italy, Japan, Korea (ROK), Kuwait, Latvia, Lithuania, Luxembourg, Macedonia, Malaysia, Malta, Mexico, Moldova, Montenegro, Morocco, Netherlands, New Zealand, Norway, Pakistan, Panama, Poland, Portugal, Qatar, Romania, Russian Federation, Saudi Arabia, Serbia, Singapore, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, Ukraine, United Arab Emirates, United Kingdom, United States, Uzbekistan, Vietnam and Zambia.

Treaties with Botswana and Ethiopia have been signed but are not yet in force. Under changes introduced in the Finance (No. 2) Act 2008, the preferential tax treatments available where a double tax treaty is in force have been extended to where treaties have been signed but are currently not in force.

Treaties are under negotiation with Azerbaijan, Ghana, Kazakhstan and Turkmenistan.

1.4 Residence
A company incorporated in Ireland shall be regarded as resident in Ireland for tax purposes, unless the company is regarded as resident in another country under the terms of a taxation treaty between Ireland and the other country.

In order to comply with certain provisions of Irish company law (namely Sections 137 and 140 of the Companies Act 2014), all Irish companies must have, at all times, one of the following:

- A bond in place in the prescribed form, in force to the value of €25,000
- At least one director resident in the European Economic Area (EEA)
- A certificate from Irish Revenue to confirm that the company has “a real and continuous link” with one or more economic activities being carried on in Ireland

1.5 Freight taxes
There are no freight taxes in Ireland.

1.6 Special vessel registration benefits for the shipowner
There are no special vessel registration benefits for the shipowner.

1.7 Changes to tax law anticipated in the near future
No major changes to the tonnage tax regime are expected.

2. Human capital

2.1 National labor law
In the case of a ship registered in Ireland, Irish labor law applies to crew members.

2.2 Formalities for hiring personnel
There are no specific procedures that must be followed when hiring personnel other than requesting a certificate of competence.

2.3 Collective labor agreements
Normal collective labor agreements, where unionized, cover rates of pay, holiday, time off, pension and working hours.
2.4 Treaties relating to social security contributions
Social security within the EU and EEA, excluding Switzerland, is governed by EU Council regulations, which prevent double payment of contributions on the same income. In general, with the exception of short-term intergroup assignments (less than 12 months), persons resident in one Member State of the EU but employed in another Member State are subject to the social security rules in the Member State in which they are employed.

Ireland has concluded bilateral agreements with the following non-EU countries: Australia, Canada (including Québec), Japan, Korea (ROK), New Zealand, Switzerland and the United States.

These cover social security contributions, where an individual who is resident in one contracting state is employed and working in the other contracting state. In summary, these agreements avoid double payment of contributions on the same income and allow short-term transferees to remain in their home country systems. Certain conditions need to be satisfied to be covered by an agreement.

It should be noted that the absence of a bilateral agreement with an EU country does not necessarily mean that appropriate cooperation is not possible. For example, there have been numerous examples of jurisdictions not listed above agreeing, on a case-by-case basis, to forgo their right to apply social security taxes to the income of an individual employed in Ireland.

2.5 Manning issues with flying the Irish flag
Ireland has strict safety requirements for crewing. Irish crew members are highly skilled, trained and familiar with stringent safety restrictions.

3. Corporate structure

3.1 Most commonly used legal structure for shipping activities
The most commonly used legal structure is the private company limited by shares (“private limited company”).

The Irish Companies Act 2014 came into force on 1 June 2015, overhauling the Irish company law regime. A principal implication was the creation of two types of private limited company: a designated activity company (which closely resembles an existing private limited company) and a private company limited by shares (which is a new simplified form of the existing private limited company). It is anticipated that both will be commonly used corporate vehicles.

3.2 Taxation of profit distribution
Dividends received from overseas by companies resident in Ireland are treated as ordinary income and taxed at the rate of either 12.5% or 25.0%, with relief for foreign tax suffered. Where the dividend is received from a “trading” subsidiary that is resident in the EU or in a country with which Ireland has a double tax agreement, or if not so resident is owned directly or indirectly by a publicly quoted company, the rate of applicable tax is 12.5%.

In certain circumstances, dividends received by a tonnage tax company from an overseas qualifying company form a part of the tonnage tax profits and, therefore, are not subject to tax.

Dividends paid by an Irish resident company are subject to withholding tax at the standard rate of income tax (currently 20%) except where the shareholder is:

> An Irish resident company, pension fund, charity or collective investment undertaking, et al
> An individual tax resident in another EU Member State or in a territory with which Ireland has a tax treaty
> A company resident in an EU Member State or in a country with which Ireland has a tax treaty and the company is not under the control of Irish residents
> A company not resident in Ireland where the company is ultimately controlled by shareholders resident in another EU Member State or in a country with which Ireland has a tax treaty
• A company not resident in Ireland and the principal class of the shares of the company, or another company of which the company is a 75% subsidiary, is traded on a recognized stock exchange in an EU Member State or a country with which Ireland has a tax treaty.

Certain documentation must be completed to qualify for the above exemptions.

4. Grants and incentives

4.1 Specific and/or general subsidies for shipping companies
Funding is available for deck and engineering cadet training from the Department of Transport.

4.2 Investment incentives for shipping companies and the shipbuilding industry
The corporation tax rate is 12.5%. A tonnage tax regime is available to shipowners, charterers and ship managers (see section 1.1 for details).

4.3 Special incentives for environmental awareness
There are no special incentives for environmental awareness.

4.4 Issues with flying the Irish flag
There are no restrictions on the nationality of crew serving on Irish-flagged vessels, other than compliance with the International Convention on Standards of Training, Certification & Watchkeeping for Seafarers (STCW) 1995.

5. General information

5.1 Infrastructure

5.1.1 Major ports
• Cork
• Dublin
• Dun Laoghaire
• Foyles/Limerick (Shannon Estuary)
• Rosslare
• Waterford

5.1.2 Port facilities
The following facilities are available:
• Maintenance and repair
• Docking
• Storage
• Cranes for every size of vessel

5.1.3 Support services for the shipping industry in Ireland
The following support services for the shipping industry are readily available:
• Ship management
• Banks with a shipping desk
• Consulting firms specializing in shipping
• Maritime law services
• Insurance brokers for the shipping industry
• A centralized business unit that will deliver complete 24-hour out-of-office assistance for ship registration
5.1.4 Maritime education
The major maritime educational institution in Ireland historically was the Nautical Enterprises Centre. However, this has now evolved into an advisory and research center.

In 2004, the new National Maritime College of Ireland opened at Ringaskiddy in County Cork. The college, a public-private partnership, represents an investment of €57 million, providing state-of-the-art training facilities and accommodating 750 students. This is now the primary Irish center of maritime education.

5.2 Safety and environmental issues

5.2.1 Implementation of the International Safety Management Code on board vessels
The Irish Maritime Development Office’s (IMDO) Maritime Safety Committee prepared and adopted the International Safety Management (ISM) Code. All Irish shipping companies currently comply with the International Convention for the Safety of Life at Sea (SOLAS) requirements regarding the ISM Code.

5.2.2 Safety rules regarding manning
The safety rules regarding manning can be characterized as strict.

5.2.3 Special regulations on safety and the environment
Ireland is a signatory to all international maritime safety conventions.

5.3 Registration

5.3.1 Registration requirements
The Irish government is currently reviewing changes to the mercantile marine laws governing the Irish Ship Register. Changes to legislation are being updated in line with government policy and will facilitate an overhaul of the Irish Ship Register, bringing the administration and services up to international best practices.

Ships owned by a body corporate, established under the law of an EU Member State and which has its principal place of business in an EU Member State, or by a national of an EU Member State, may register to fly the Irish flag.

In addition, Irish-owned ships may register on a foreign register (subject to the provisions of the relevant foreign jurisdiction).

5.3.2 Ship registration procedure
Under current rules, before registering in the Irish Ship Register, the following conditions must be complied with:

• The owner must be qualified to own an Irish ship (i.e., a body corporate or national of an EU Member State as outlined in section 5.3.1) and must apply in writing to register the ship under the Mercantile Marine Act 1955.
• The name of the vessel must be approved.
• Evidence of title, together with a builder’s certificate, must be provided.
• The vessel must be surveyed by the marine surveyors’ office.
• The vessel must be marked and carved.
• A declaration of ownership must be provided.
• The appropriate registration fee must be paid.

Where the vessel is owned by a company, the following additional information is required:

• Original certificate of incorporation of the company
• Memorandum and articles of association of the company
• A company-appointed officer to make declarations on its behalf
• A company-appointed manager
5.3.3 Requirements for officers and crew serving on vessels
At present, to work in various officer capacities on Irish merchant ships, it is necessary to hold a certificate of competence (CoC) issued or accepted by the Irish Department of Transport.

An Irish certificate of equivalent competence (CEC) may be issued, on application, to officers holding valid STCW certificates issued by other STCW convention states. This will generally be issued where the Irish authorities are satisfied that there are no significant differences between the standard set by Ireland and the standard represented by other certificates. The CEC will carry the same rights and obligations as the CoC. Like the CoC, it will require periodic revalidation, and holders will be subject to statutory procedures relating to their conduct. A CEC will remain valid only as long as the original STCW certificate remains valid. For the benefit of Port State Control inspectors and employers, the original STCW certificate must always be carried with the CEC.

5.3.4 International conventions regarding registration
Most major international conventions have been ratified by Ireland.

5.3.5 Special requirements or rules regarding registration
There are no special requirements or rules regarding registration.

5.3.6 Registration fees
There is a one-off fee of €252 for registration of a vessel over 1,500 tons (€202 for a vessel under 1,500 tons) in the Irish Ship Register. This does not include survey fees.

5.4 General comments
The Minister for the Marine established the IMDO in July 2000. This indicates a strong commitment to the shipping services sector and can be interpreted as a statement of intent by the government. The IMDO (which is Ireland’s first dedicated development, promotional and marketing agency for shipping, shipping services and seafarer training) has a very broad statutory remit to promote the expansion of Irish shipping and related industries. One of its stated aims is to identify opportunities in the sector, including the “financing of new and second-hand ships, building on the proven experience of the IFSC (International Financial Services Centre).”

For more information, go to www.imdo.ie.
Isle of Man

1. Tax

1.1 Tax facilities for shipping companies

A company is resident in the Isle of Man by virtue of incorporation or if the central management and control of the company are exercised in the Isle of Man. Companies resident in the Isle of Man are subject to income tax on their worldwide income, but relief from double taxation is available although limited to the tax incurred. A nonresident company with a branch carrying on a trade in the Isle of Man is subject to income tax on the profits of the branch.

The standard rate of corporate income tax on the Isle of Man is 0%. Companies that derive income from land and property in the Isle of Man (e.g., property development, rental and letting, and mining and quarrying) are subject to tax at 20%. Certain retail business and licensed Manx banks are subject to tax at 10%. Trading companies may also elect to be taxed at the 10% rate.

Annual return

Resident companies pay an annual return fee of €500 for the 2015-16 tax years.

Withholding tax

In general, there is no withholding tax on dividends, interest and royalties paid by Isle of Man resident companies. Withholding tax is imposed on Manx rents paid to nonresident companies and nonresident individuals (20%).

Capital gains tax and transfer tax

There is no tax on capital gains on the Isle of Man, nor are any transfer taxes levied.

Computation of taxable profit

Taxable profits are calculated on the profit from the statutory financial statements, subject to certain adjustments and provisions.

Expenses must be incurred wholly and exclusively for business purposes and in acquiring the company’s income.

Capital allowances (tax depreciation)

A generous first-year allowance of up to 100% on plant and machinery may be claimed. Annual writing-down allowances of 25% may also be claimed. The purchase of a ship and related expenditure usually qualify for 100% first-year allowances, as do certain survey costs.

Upon disposal of assets on which capital allowances have been claimed, an adjustment is made by add-back or further allowance to reflect the net cost to the company of the asset.

Relief for trading losses

Trading losses may be used to offset other income in the year in which the loss was incurred or trading income of the preceding year if the same trade was carried on. Alternatively, the losses may be carried forward without time limit for offset against future income from the same trade. Losses cannot be transferred between 0% and 10%/20% business.

Value-added tax

Many supplies in connection with shipping are zero-rated (exempt with credit), including:

- The supply of qualifying ships (gross tonnage greater than 15 tons and not designed or adapted for recreation or pleasure)
- The supply of parts and equipment of a kind ordinarily installed or incorporated in the propulsion, navigation or communications systems or the general structure of a qualifying ship and for the incorporation or installation in a qualifying ship
• The supply of safety equipment for qualifying ships
• The repair or maintenance of qualifying ships
• The repair and maintenance of parts or equipment of a qualifying ship provided the repair is carried out on board or the part or equipment is removed for repair and is then replaced in the same ship
• The modification or conversion of a qualifying ship provided that when so modified or converted it will remain a qualifying ship
• The supply of services under charter of qualifying ships
• Renting or hire of qualifying ships
• Handling services provided for qualifying ships subject to conditions and excluding the renting on hire of goods
• Salvage and towage services, whatever the type of ship
• Surveying or classification of qualifying ships that are normally zero-rated or outside the scope of value-added tax (VAT)
• Pilotage services, whatever the type of ship

Provision of passenger transport is generally zero-rated.

1.2 Tax facilities for seafarers
Wages will not be subject to Manx tax deductions if duties are performed outside Manx waters.

1.3 Tax treaties
The Isle of Man has entered into double taxation agreements (DTAs) with Bahrain, Belgium (awaiting ratification), Estonia, Guernsey, Jersey, Luxembourg, Malta, Qatar, Seychelles and Singapore and has a longstanding DTA with the United Kingdom.

The Isle of Man has entered into tax information exchange agreements (TIEAs) with Argentina, Australia, Botswana (awaiting ratification), Canada, Cayman Islands (awaiting ratification), China, Czech Republic, Denmark, Faroe Islands, Finland, France, Germany, Greenland, Iceland, India, Indonesia, Ireland, Italy, Japan, Lesotho, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Romania (awaiting ratification), Slovenia, Spain (awaiting ratification), Swaziland (awaiting ratification), Sweden, Switzerland, Turkey (awaiting ratification), United Kingdom and United States.

Besides the above treaties and agreements, there are specific agreements on the taxation of shipping income with Denmark, Faroe Islands, Finland, France, Germany, Greenland, Iceland, the Netherlands, Norway, Sweden and United States of America.

1.4 Freight taxes
No freight taxes are levied.

1.5 Tonnage tax
The Isle of Man does not operate a tonnage tax system, but an annual registration fee of €2,275 applies.

2. Human capital

2.1 Formalities for hiring personnel
The formalities for hiring personnel are described in the Merchant Shipping (Masters and Seafarers) Act 1979 and the Merchant Shipping (Crew Agreements, Lists of Crew and Discharge of Seamen) Regulations 1991.

2.2 National labor law
National labor law is applicable if crew members sail in Manx waters.
2.3 Regulations on employing personnel  
The Isle of Man follows all recognized international standards.

2.4 Collective labor agreements  
Crew agreements and contracts in general  
The Merchant Shipping (Crew Agreements, Lists of Crew and Discharge of Seamen) Regulations 1991, which apply to Manx-registered ships, require seafarers employed on those ships to be engaged on an approved agreement. This requirement does not, however, apply to masters and persons employed in construction work, oil or gas exploration work, entertainment and to members of the armed forces while on a ship.

The provisions and form of a crew agreement must be approved by the Isle of Man Ship Registry. In practice, the agreements have been standardized and if used without amendment, no further approval is required.

The Isle of Man Ship Registry has two standard crew agreements:
- For use on ships formerly operating under National Maritime Board conditions, i.e., federated ships
- For use on non-federated ships where the current non-federated contractual clauses form the basic clauses for an agreement and may stand on their own or be supplemented or even substituted with company contracts

Employers who wish to use agreements other than the standard forms, or who wish to use modified versions of such forms, will be required to submit them to the Isle of Man Ship Registry for approval not less than 12 days before commencement of the agreement to ensure that the seafarers are as adequately protected under these agreements as they would be under the provisions set out in the standard forms of agreement. Approval will not be given to such agreements unless they comply with International Labour Organization (ILO) Convention 22 (Seamen’s Articles of Agreement) and contain the required information.

List of the crew  
The list of crew required under the 1991 regulations should be incorporated in the agreement. In addition to the particulars of the seafarers, there must be provisions for the insertion of rates of pay, certificates and endorsement and for the signature of each seafarer as party to the agreement. Company pay scales may be annexed to the agreement.

In addition to the crew list on board the vessel, an accurate copy of the crew list is to be kept at an address in the Isle of Man by the representative. The master is required to notify the owner/manager of any crew changes.

2.5 Treaties relating to social security contributions  
There are no treaties regarding social security obligations. The Isle of Man is covered by reciprocal agreements with the United Kingdom that in turn cover the United Kingdom’s reciprocal agreements with numerous territories to prevent double social security charges and assure benefit coverage.

2.6 Manning issues with flying the Isle of Man flag  
There are no significant issues regarding manning when flying the Isle of Man flag.

3. Corporate structure

3.1 Most commonly used legal structure for shipping activities  
Ships are usually owned by limited companies or limited partnerships.

3.2 Taxation of profit distribution  
In general, shipping profits can be distributed free of withholding tax.
4. Grants and incentives

4.1 Specific and/or general subsidies available to shipping companies
The Isle of Man government is always committed to encouraging new business to come to the Isle of Man. The Department of Economic Development can offer generous grants in certain circumstances.

4.2 Investment incentives for shipping companies and the shipbuilding industry
The government of the Isle of Man wishes to promote the continuing growth and diversification of the industrial sector. Extremely generous assistance and incentives are available.

Capital grants
Capital grants of up to 40% for the costs of new buildings, building improvements, and new plant and machinery can be provided. While all of the grants and loans are discretionary, and are awarded only to companies satisfying certain environmental and commercial criteria, in practice, the average grants offered to projects on the island are far higher than those offered for similar projects in most European countries.

Expansion grants
Capital grants of up to 40% of the costs of buildings and plant and machinery can be given for subsequent investment by companies on the Isle of Man.

Operating grants
The Isle of Man is one of few places where operating grants are available. For example, grants of up to 40% are available for nonrecurring setting-up expenses incurred in the first year, vocational training (increasing the efficiency of the employee and/or the employer), marketing costs for new ventures, employing consultants to advise on methods of applying microprocessing technology to manufacturing processes, and the costs of pursuing quality assurance standards, such as BS5750 (British standard of excellence in quality management).

Loans on favorable terms
Loans of up to half a company's projected working capital requirement, at modest interest rates and with capital repayment deferred for up to two years, may be offered in addition to the grants.

Rent reductions
Should a company with an approved project wish to rent a new factory privately, rather than build its own with grant aid, a rent allowance can be offered to reflect the grant forgone.

4.3 Special incentives for environmental awareness
A grant of up to 40% is available to assist with the costs of improving energy efficiency or waste efficiency. Green business loans – a scheme to provide interest-free loans between €1,400 and €28,000 - are available for projects that increase energy efficiency.

4.4 Issues with flying the Isle of Man flag
Flying the Isle of Man flag entails:
- The right to fly the “Red Ensign” and access to the support of British consular services and naval protection worldwide
- The professional Isle of Man Ship Registry providing a high quality of service
- Flexibility in the requirements for registered owners, including acceptance of limited partnerships
- The availability of demise registry both “in” and “out”
- Low costs and no annual tonnage dues
- Full political support for shipping
- A range of professional services designed to support shipping
- Non-flag of convenience (FOC) status
4.5 Major changes in shipping subsidy legislation anticipated in the near future
No major changes are currently expected in the near future.

5. General information

5.1 Infrastructure

5.1.1 Major ports
The major port is Douglas. The port is essentially used for passenger and freight transport to and from the island, rather than international trade. Castletown, Peel and Ramsey are the other major ports.

5.1.2 Port facilities
The following port facilities are available:
- Maintenance and repair
- Docking
- Storage
- Cranes for every size of vessel (Douglas port)

5.1.3 Support services for the shipping industry on the Isle of Man
The following support services for the shipping industry are readily available:
- Experienced ship managers
- Banks with a shipping desk
- Consulting firms specializing in shipping
- Maritime law services
- Insurance brokers for the shipping industry

5.1.4 Maritime education
There are no maritime educational institutions.

5.2 Safety and environmental issues

5.2.1 Implementation of the International Safety Management Code on board vessels
Full compliance with the International Safety Management (ISM) Code is required.

5.2.2 Safety rules regarding manning
Safety rules can be characterized as strict, and there is a wide range of regulations covering safety-related issues.

5.2.3 Special regulations on safety and the environment
The Isle of Man follows the ISM Code and has fully implemented and adheres to the guidance of the International Convention for the Safety of Life at Sea (SOLAS) Chapter XI covering maritime security. This also incorporates the amendments to the International Ship and Port Facility Security (ISPS) Code.

5.3 Registration

5.3.1 Registration requirements
Manx-registered ships are British ships. They are, however, under the separate jurisdiction of the Isle of Man Ship Registry.

The majority interest in the ship (e.g., at least 33 of 64 shares) must be owned by one of the following:
- Companies incorporated in the Isle of Man and having their principal place of business in the Isle of Man (there are no nationality requirements for ownership of such companies)
- Companies incorporated in the United Kingdom, Channel Islands and any British dependent territory
Companies incorporated in Member States of the European Union (EU) and European Economic Area (EEA) countries and having their principal place of business in any such country, although it should be noted that a company may be incorporated in any of the above territories or EU Member States and have its principal place of business in any other of the above territories or EU Member States

- Limited partnerships established and registered in the Isle of Man in accordance with the Partnership Act 1909 and the International Business Act 1994 and in certain prescribed countries as detailed in Registry Advice Notes (RAN) 05

- British citizens, British dependent territories’ citizens, British subjects and British nationals

- Citizens of Member States of the EU and EEA countries

- Citizens of prescribed relevant jurisdictions (Australia, Bahamas, Canada, China, Hong Kong, India, Japan, Liberia, Marshall Islands, Monaco, New Zealand, Pakistan, Panama, Russia, Singapore, South Africa, Switzerland, United Arab Emirates, United States of America) as detailed in RAN 02

A minority interest in a ship (e.g., up to 31 shares) may be owned by nonqualified persons.

Merchant ships to be registered in the Isle of Man should be classed with one of the approved classification societies.

In addition to the above, it is a requirement that a representative person must be appointed as detailed in RAN 15.

The British Red Ensign is the flag that is normally flown on Manx ships. However, registered owners resident in the Isle of Man may, if they wish, fly on their British ships the Red Ensign incorporating the “Three Legs of Man” (the symbol of the Isle of Man).

### 5.3.2 Bareboat charter registration

Bareboat charter registration was introduced in 1991, whereby a shipowner can demise charter register a vessel both in and out of the Isle of Man and so separate the financial and operational jurisdictions.

Demise charter registration provides a more flexible and attractive package, regarding, for example:

- Mortgaging facilities
- Manning requirements
- National laws that may permit tax advantages

A shipowner may still be able to obtain subsidies if the owner of the vessel remains in the original state, although the vessel may be “flagged out” to another registry.

Demise charter registration is only possible between the Isle of Man and compatible registries, i.e., those states whose national laws permit such arrangements.

The maximum registration period is five years, but this can be renewed for an additional period. Vessels registered in the Isle of Man in this manner comply with all regulations (other than ownership nationality) as if they were on the main Isle of Man register.

### 5.3.3 Requirements for officers and crew serving on vessels

Every officer, unless holding a UK-issued certificate of competency, must have an Isle of Man endorsement as required by Regulation I/10 of the international Standards of Training, Certification & Watchkeeping (STCW) Convention 1995 to accompany the national certificate of competency.

The Isle of Man does not issue its own certificates of competency; it does, however, issue endorsements recognizing a national certificate of competency. Endorsements are required for all officers sailing on Isle of Man-registered vessels unless they hold a certificate of competency issued by the UK under STCW 95. UK-issued certificates of equivalent competency are not acceptable.

Officers serving on Isle of Man-registered vessels may be of any nationality and any residency provided they...
are holders of certificates of competency issued by one of the STCW 95 White List countries recognized by
the Isle of Man and for which it issues endorsements attesting to the recognition of such certificates.

Ratings may be of any nationality provided they have completed the basic training as required under STCW
95 in the four key elements:

1. Personal survival
2. Basic first aid
3. Basic fire fighting
4. Personal safety and social responsibilities

Each rating must have documentary evidence of this training, which can be issued by any country that is a
signatory to the STCW Convention.

Every rating forming part of a watch must hold a valid deck or engine room watch rating certificate, as
applicable. Certificates issued by the rating's home country, provided that it is a signatory to the STCW
Convention, are acceptable.

In the case of ratings who do not have certificates but who can demonstrate the required competence in line
with the STCW Convention, it is possible for the vessel's master or chief engineer to make the assessment of
competence and issue a provisional Isle of Man watch rating certificate. A provisional certificate is valid for
three months.

To ensure that all Isle of Man-registered vessels are sufficiently, efficiently and safely manned with properly
trained and certified personnel, a minimum safe manning document, issued under the provisions of Chapter
V/14.2 (Safety of Navigation) of SOLAS 1974, as amended, must be carried by all vessels to which Chapter I
of SOLAS applies, including merchant vessels over 500 gross tonnage and commercial yachts over 500 gross
tonnage.

SOLAS Chapter I does not apply to pleasure yachts, and as such, these vessels do not require a minimum safe
manning document.

5.3.4 International conventions regarding registration
All major international conventions have been extended to the Isle of Man.

5.3.5 Special requirements and rules regarding registration
Survey requirements prior to registry
An owner or manager seeking to register a ship in the Isle of Man should initially make contact with the
registrar to ensure there are no impediments to registry and with the principal surveyor to discuss the
requirements for survey.

The requirement for a pre-registration survey will depend on the age of the vessel and its Port State Control
(PSC) history. Generally, vessels under 10 years old will not require a pre-registration survey if their PSC
history is acceptable.

The requirement for a pre-registration survey on a new build will depend on the shipyard where the vessel is
being built and whether the owner has ships already registered with the Isle of Man Ship Registry. Generally,
new builds coming from shipyards that have delivered to Isle of Man flag requirements previously will not
require a pre-registration survey.

New building of ships
Delegation of continuing inspection during construction may be made to approved classification societies.
Some visits may be made by a surveyor from the administration to confirm compliance with the regulations
and subsequent acceptance of the vessel for registration and the issue of international certificates. This will
only be to a new shipyard, the first in a series of new builds or at the owner's request.

Existing ships
Where ships are registered in an EU Member State or an EEA country, the Isle of Man administration will
issue international certificates for the unexpired period of validity of the existing certificates, subject to a satisfactory inspection of the ship by the Isle of Man surveyor and submission of copies of appropriate existing certificates.

Certification

The following international certificates are issued as appropriate by the administration following the satisfactory completion of surveys:

- Passenger Ship Safety Certificate
- Safety Management Certificate
- Ship Security Certificate
- Safe Manning Certificate
- Civil Liability for Oil Pollution Damage and Bunker Certificates

The following international certificates are issued by approved classification societies on behalf of the Isle of Man government, following the satisfactory completion of surveys:

- Cargo Ship Safety Construction Certificate
- International Load Line Certificate (1966)
- International Tonnage Certificate (1969)
- Safety Equipment Certificate
- Safety Radio Certificate
- All international conventions for the prevention of pollution from ships (MARPOL) certificates

The senior registrar has a requirement to visit each merchant ship on the register at least once every five years. This will normally be at the same time as a Safety Management Certificate audit.

Fees are charged by the Isle of Man Ship Registry for conducting surveys and inspections and the issuance of related convention certificates, and in addition, the costs of travel and subsistence associated with visiting ships are charged to shipowners or ship managers. Where a survey is delegated to another organization, the fees and costs are settled by arrangement between the shipowner or manager and that organization.

5.4 General comments

Shipping regulation

The Isle of Man Ship Registry (formerly Isle of Man Marine Administration) was established by the Isle of Man government in 1984 – although the Isle of Man has had a long-established maritime industry since 1786 – and has its own team of experienced, professional surveyors.

The only fees charged by the Isle of Man Ship Registry are those relating to registration, survey and certification of ships. There is no additional tonnage tax levied on Manx-registered shipping. However, there is an annual registration fee of €2,275 payable on 1 April irrespective of the size of the vessel.

The Isle of Man Ship Registry is generally regarded by the shipping industry as progressive in outlook and works in close consultation with the shipping industry to ensure that sensible, well-balanced, effective and, moreover, workable regulations are developed.

Shipping overview

The Isle of Man has developed from a mainly British to an international shipping center. Many of the world’s major owners and ship managers have companies on the island, thereby creating one of the leading ship management centers in the British Isles.

Ship management activity is supported by numerous shipping-related service providers. Consequently, the island is able to offer broad services to the owners and operations of ships worldwide.

Shipping taxation

The Isle of Man offers company legislation, a fiscal environment and a tax regime that are well-suited for shipping activities.
**Isle of Man Ship Register**

The Isle of Man offers a quality, low-cost register, which has a Isle of Man Ship Registry that is approachable and likely to apply practical solutions while maintaining international standards. As the Isle of Man Ship Register is a member of the British Red Ensign Group, the ships registered in the Isle of Man are British ships. Although Manx ships come under the separate jurisdiction of the Isle of Man Ship Registry, as British vessels, they are entitled to fly the Red Ensign.

**Isle of Man commercial yacht register**

Commercial yachts of 24 meters in length and more can be registered in the Isle of Man. This register has become a register of choice for the world's mega-yachts.

Any commercial yacht proposed for registry must be 24 meters in length or more and must be classed with one of the classification societies recognized by the Isle of Man. Vessels must also comply with the United Kingdom Large Commercial Yacht Code.

Applicable legislation:

- Merchant Shipping Act 1995
- Merchant Shipping (Registration) Act 1991
- Merchant Shipping (Registration) Regulations 1996
- Merchant Shipping (Pleasure Vessel) Regulations 2003
- Merchant Shipping (Maritime Labour Convention) Regulations 2013
- Merchant Shipping (Manning and STCW) Regulations 2014
- Merchant Shipping (Vessels in Commercial Use for Sport & Pleasure) Regulations 2014

**Isle of Man Ship Registry:**

- www.gov.im/ded/shipregistry
Italy

1. Tax

1.1 Tax facilities for shipping companies

The Imposte sul Reddito delle Società (IRES) is the Italian corporate income tax. Companies are subject to IRES based on their statutory income, adjusted for nontaxable revenues and/or nondeductible costs according to IRES provisions.

IRES is levied at the ordinary rate of 27.5% (starting from FY 2017, the applicable corporate income tax rate will be reduced to 24%).

Fiscal losses determined for IRES purposes can be used without time limit to offset up to 80% of each fiscal year’s taxable basis. Start-up losses (i.e., losses generated in the first three years of activity) can be used to offset 100% of each fiscal year’s taxable basis. No loss carryback is allowed.

Companies are also subject to Imposta regionale sulle attività produttive (IRAP), a regional tax on business activities, which is determined by applying a tax rate of 3.9% to the income statement “operating margin” (without deducting, however, bad debts and accruals for risks). Financial revenues, as well as extraordinary incomes, are not taxable for IRAP purposes. Law no. 190, dated 23 December 2014 (Stability Law 2015), introduced the following IRAP amendments:

- The full deductibility from the IRAP taxable base of the labor cost relating to long-term employees starting from the fiscal year following the one in progress at 31 December 2014
- The possibility, for those taxpayers without long-term employees, to benefit from a tax credit equal to 10% of the IRAP paid starting from the fiscal year following the one in progress at 31 December 2014

As of tax year 2005, shipping companies may opt for tonnage taxation, which applies for 10 years and is available for “qualified” vessels (those registered in the Italian international shipping register with a tonnage of at least 100 tons). If the tonnage tax regime is not elected, the ordinary regime for these vessels states that the income attributable to them is abated by a special deduction of 80%. Furthermore, IRAP does not apply to qualified vessels.

Starting from FY 2015, the option for the aforementioned tonnage taxation could be included directly in the tax return of the year from which the company intends to exercise the option.

Tonnage taxation depends on the net tonnage of the vessel and it is determined as follows:

<table>
<thead>
<tr>
<th>Net tonnage</th>
<th>Daily fixed income per ton (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-1,000</td>
<td>0.009</td>
</tr>
<tr>
<td>1,001-10,000</td>
<td>0.007</td>
</tr>
<tr>
<td>10,001-25,000</td>
<td>0.004</td>
</tr>
<tr>
<td>More than 25,000</td>
<td>0.002</td>
</tr>
</tbody>
</table>

Tonnage taxation applies to:

- Qualified owned vessels
- Qualified bareboat chartered-in vessels
- Chartered-in (also nonqualified) vessels, but only up to 50% of the tonnage of all the employed vessels; income from chartered-in vessels with tonnage in excess of 50% is taxed under the ordinary rules
- Italian partnerships (similar to German Kommanditgesellschaft [KG] structures)
- Qualified vessels employed in national traffic

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1 This rule follows a ministerial interpretation dated 26 December 2007.
While partnerships are tax transparent entities, for qualified vessels employed in national traffic, only partners are eligible to be taxed under tonnage tax rules.

Capital gains and losses on transactions on qualified vessels are included in the above fixed income. However, should the transfer regard a unit already in possession of the user in a tax period preceding the period of initial application of this system, the taxable income shall be adjusted to add the difference between the consideration received, net of the charges directly imputable thereto, and the non-depreciated cost as of the most recent year preceding that of the initial application of the system for calculating taxable income as described above.

Shipping groups should apply this taxation to every vessel owned by group companies (the current understanding is that the law applies only to Italian companies/permanent establishments).

Under certain conditions, income from bareboat-out qualified vessels may not be subject to the tonnage tax but can be abated by 80%.

1.2 Tax facilities for seafarers
Shipping companies are exempt from the payment of social contributions and withholding tax on seafarers embarked on vessels registered in the Italian international shipping register.

1.3 Tax treaties and place of effective management
Italy has a large network of tax treaties. Pursuant to Article n. 8 (“Shipping, inland waterways transport and air transport”) of the Organisation for Economic Co-operation and Development (OECD) “Model convention with respect to taxes on income and on capital” (based on which the tax treaties are stipulated), profits from the operation of ships in international traffic shall be taxable only in the State in which the place of effective management of the enterprise is situated.

Profits from the operation of boats engaged in inland waterways transport shall be taxable only in the State in which the place of effective management of the enterprise is situated.

If the place of effective management of a shipping enterprise or of an inland waterways transport enterprise is aboard a ship or boat, then it shall be deemed to be situated in the State in which the home harbor of the ship or boat is situated, or, if there is no such home harbor, in the State of which the operator of the ship or boat is a resident.

The place of effective management is the main issue in the tax treaties regarding shipping companies.

1.4 Freight taxes
Freight tax does not apply in Italy.

1.5 Special vessel registration tax benefits for the shipowner
See sections 1.1 and 3.2.

Tax lease structures apply to Italian corporate taxpayers. Lessors may deduct up to a 35% depreciation rate for leased vessels.

The tax lease regime will apply once authorization is obtained from the European Union (EU) competent authorities.

2. Human capital

2.1 Formalities for hiring personnel
Italian legislation protects seafarers from discrimination on the grounds of sex, race, disability or trade union membership.

Ministerial Decree dated 24 January 2008 introduces a telematic system for the communications relating to seafarer’s employment (the so-called UNIMARE system).
According to the Ministerial Decree all shipping companies/ship owners have to communicate hirings, terminations and other changes (such as transformation and deferment) relating to seafarer’s employments through the fulfillment of the telematics form UNIMARE.

UNIMARE is the online service that allows the employer to collect all the mandatory information concerning its employees in case of embarkation and disembarkation of seafarers. All the communications have to be fulfilled within 20 days running from the embarkments/disembarkments date.

Furthermore, the following legislation is in force:

- Navigation Code approved by Regium Decree 30 March 1942 n. 327 and subsequent updates
- Law 4 April 1977 No. 135, regarding the professionalism of a ship's agents (last modification by Legislative Decree 26 March 2010, No. 59)
- Article 29 of Law 14 June 1989 No. 234, concerning the union agreement regarding temporary deletion of a vessel from the Italian register of ships (see section 5.3.3)
- Legislative Decree 30 December 1997 No. 457, modified by Law 27 February 1998 No. 30 (last modification by Law 27 February 2011, No. 183), regarding seafarers employed on Italian vessels listed in the Italian international register (see section 5.3.3)
- International Labour Organization (ILO) conventions on seafarers implemented by Italy
- Collective labor agreement for seafarers
- Worker’s Fundamental Rights Chart (Law 20 May 1970, No 300)

2.2 National labor law

The employment of an Italian seafarer on an Italian ship is governed by Italian law.

The employment of an Italian seafarer on a ship under a foreign flag and the employment of a foreign seafarer on a ship under the Italian flag are governed by Article 8 of the European Regulation n. 593/2008 of 17 June 2008 (the so-called Regulation Rome 1 that has replaced the Convention of Rome 1980), which considers four possibilities:

1. The law fixed by contract, provided such a law grants seafarers the benefits of the alternate choice
2. The law of the country where the seafarer habitually performs work
3. The law of the country of hiring (this may be the site where the shipping company is based)
4. Other law that might have a different connection with the employment relationship

The standards for training and education of seafarers are governed by the Standards of Training, Certification and Watchkeeping for Seafarers (STCW) Convention. The STCW Convention has been adopted by the IMO (International Maritime Organization), with Italy being a party to the Convention. The STCW Convention was significantly amended in 2010. The amendments introduce new standards of training in accordance with the new technologies that have been implemented. The EU has adopted the Directive n. 35/2012 in order to be compliant with these amendments and Italy has finally implemented the EU Directive with the Legislative Decree n.71/2015.

2.3 Regulations on employing personnel

No special regulations apply.

2.4 Collective labor agreements

Shipping is generally highly unionized.

In 2015, the standard-setting and the economic components of the collective labor agreement were renewed.

Minimum wage and other mandatory payments, free days, termination of employment, rules regarding working hours and the arrangement of national health insurance depend on matters such as trade and gross tonnage of the ship.
Social Partners also signed a framework agreement in 2015 to rationalize the collective labor agreements.

2.5 Treaties relating to social security contributions
Wages paid to seafarers working on a ship flying the Italian flag are subject to Italian pension and social security contributions as per Law Nr. 413/1984. Pension contributions should be paid to INPS (Istituto Nazionale Previdenza Sociale, the National Security Institute). Social security contributions (e.g., health insurance, maternity, accident at work, professional disease) are managed by IPSEMA (Istituto Di Previdenza Per Il Settore Marittimo, the Insurance Institute for the Maritime Sector).

The Treaty of Rome covers reciprocal obligations for EU Member States regarding social security benefits across the EU.

Furthermore, to prevent double social security contribution and ensure benefit coverage, Italy has concluded agreements with several countries that traditionally supply seafarers to foreign vessels.

In relation to social security legislation applicable in the EU, according to the European Regulation n. 883/2004, article 11, an activity performed as an employed person on board a ship flying the flag of a Member State shall be deemed to the social security of the said Member State. This EU Regulation also indicates that when remuneration is paid by a company residing in a different Member State, the applicable social security law will be the one related to the Member State in which the Company resides, e.g., when the company resides in Italy, the Italian social security legislation will be applicable.

With regard to social security taxation for non-EU countries, it will be necessary to apply the appropriate agreement concluded between Italy and the non-EU country to avoid the double social security taxation.

2.6 Treaties relating to tax aspects
From a tax perspective, when an employment activity is carried out on a ship operated in international traffic, art. 15 of the Model the Organization for Economic Co-operation and Development (OECD) provides that, to avoid double taxation, the remuneration deriving in respect of this work activity may be taxed in the Contracting State in the place of effective management of the enterprise.

Article 15 applies only if the condition of the international traffic is met; therefore, it is not applied when the traffic is between two areas within one State, even if the management of the enterprise resides in another State.

In January 2014, the OECD issued a proposal of modification of the Model that has not yet become effective. The main changes (in relation to the subject of this paragraph) concern the criteria to identify the State eligible for the tax authority and the exceptions to this criteria.

2.7 Manning issues with flying the Italian flag
Advantages related to the management of a vessel in Italy depend on the opportunities offered by Law 14 June 1989 No. 234 (“bareboat charter,” see section 5.3.3) and by Law 27 February 1998 No. 30 (“Italian international register,” see section 5.3.3).

3. Corporate structure

3.1 Most commonly used legal structures for shipping activities
The most common legal structure for shipping operations is the Joint Stock Company (e.g., Società per azioni – S.p.A.) or the Limited Liability Company (e.g., Società a responsabilità limitata – S.r.l.).

3.2 Taxation of profit distribution
Outbound dividends
Dividends distributed to foreign parent companies are subject to a statutory 26% withholding tax, which is usually reduced under the application of tax treaties.
Dividends distributed to qualified EU parent companies are subject to a 1.375% withholding tax. Dividends paid out to Italian companies are exempt from withholding tax.

Dividends distributed to qualified EU parent companies in compliance with the requirements for the application of the Parent-Subsidiary Directive are exempt from withholding tax.

**Inbound dividends**

95% of inbound dividends distributed by non-CFC (controlled foreign corporations) companies are exempt.

### 4. Grants and incentives

#### 4.1 Specific and/or general subsidies available for shipping companies

Italian legislation currently does not provide for any significant subsidies or grants for the shipping industry. The last law enacted in this area is Law 9 January 2006, No. 13, which provides that the successive budget laws can refinance the funds of the state budget. The latest finance law has not allocated any resources for this contribution, which, however, is still open for refinancing.

Furthermore, the government provides funds for shipping companies involved in trade with the domestic islands. These subsidies are intended to offer comprehensive shipping services to inhabitants of the Italian islands. The subsidies are granted to a few identified companies on the basis of an agreement that was scheduled to remain in force until 2009 (whether it is still in force is unclear).

#### 4.2 Investment incentives for shipping companies and the shipbuilding industry

On 27 June 2002, Directive CE No. 1177/2002, implemented by the Budget Law 2008, was issued regarding financial support of up to 6% of the contract value for the support of the following types of vessels:

- Container ships
- Chemical carriers
- Oil tankers
- Liquefied natural gas (LNG) carriers

The successive budget laws can refinance the funds of the state budget. The latest finance law has not allocated any resources for this contribution, which, however, is still open for refinancing.

#### 4.3 Special incentives for environmental awareness

See section 5.2.3.

#### 4.4 Issues with flying the Italian flag

Besides the advantages that come from Italy being a Member State of the EU, flying the Italian flag does not entail any specific advantages or disadvantages.

#### 4.5 Major changes in shipping subsidy legislation anticipated in the near future

No major changes are anticipated.

### 5. General information

#### 5.1. Infrastructure

##### 5.1.1 Major ports

Italy has a vast network of ports of which the most important are:

- Ancona, Augusta, Bari, Brindisi, Cagliari, Civitavecchia, Genoa, Gioia Tauro, La Spezia, Livorno, Marina di Carrara, Naples, Palermo, Piombino, Ravenna, Salerno, Savona, Taranto, Trieste, Venice

Private investors own the main terminals in the container business. The activity of the most important
terminal ports as of 31 December 2013 (source: Confitarma) is as follows:

<table>
<thead>
<tr>
<th>Port</th>
<th>Terminal activity in 2013 in 20-foot equivalent units (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gioia Tauro</td>
<td>3,087</td>
</tr>
<tr>
<td>Genoa</td>
<td>2,039</td>
</tr>
<tr>
<td>La Spezia</td>
<td>1,300</td>
</tr>
<tr>
<td>Taranto</td>
<td>200</td>
</tr>
<tr>
<td>Cagliari</td>
<td>656</td>
</tr>
<tr>
<td>Livorno</td>
<td>559</td>
</tr>
<tr>
<td>Naples</td>
<td>477</td>
</tr>
</tbody>
</table>

Besides the main Mediterranean hub Gioia Tauro, Taranto has been operational with a new container terminal since September 2001 and is expected to increase its terminal activity in the next few years.

Ferry services are operational on both the west and east coast of the country in the following ports:
Ancona, Brindisi, Cagliari, Civitavecchia, Genoa, Livorno, Naples, Olbia, Palermo and Porto Savona

In the cruise business, the main ports are:
Ancona, Civitavecchia, Genoa, Livorno, Naples, Palermo, Savona and Venice.

5.1.2 Port facilities

The following facilities are available in all major ports:
- Maintenance and repair
- Docking
- Storage
- Cranes for every size of vessel

5.1.3 Airports close to the major ports

Airports close to major ports are:
- Capodichino (Naples)
- Ciampino (Rome)
- Cristoforo Colombo (Genoa)
- Galileo Galilei (in Pisa) (Livorno)
- Leonardo da Vinci-Fiumcino (in Rome) (Civitavecchia)
- Linate (Milan)
- Malpensa (Milan)
- Marco Polo (in Venice) (Tessera)
- Punta Raisi (Palermo)
- S. Eufemia (in Lamezia Terme) (Gioia Tauro)

5.1.4 Support services for the shipping industry

The following support services are readily available:
- Banks with a shipping desk
- Consulting firms specializing in shipping
- Maritime law services
- Insurance brokers for the shipping industry
- Classification societies (RINA, BV, GL) recognized by the Italian Flag Administration
Genoa and Naples have the largest concentration of maritime services and expertise in Italy.

5.1.5 Maritime education

There are various maritime educational institutions in Italy. The most important are:

- The University of Genoa, Maritime and Transport Economy and Maritime Engineering
- The University of Naples “Federico II,” Maritime Engineering
- The University of Trieste, Maritime Engineering

5.2 Safety and environmental issues

5.2.1 International and national rules

Under Italian law, the following rules apply to ships registered in the country:

- International Convention for the Safety of Life at Sea (SOLAS), including the International Safety Management Code
- International Convention for the Prevention of Pollution From Ships (MARPOL)
- International Convention on Load Lines (LL)
- International Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW)
- 1969 Brussels Convention to minimize marine pollution and the related 1971 Brussels Convention to institute an international fund
- Law 31 December 1982 No. 979 to prevent sea pollution
- Legislative Decree 27 July 1999 No. 271 to ensure safety and health of seafarers on board ships
- Legislative Decree 6 November 2007, n. 193 for food hygiene; the violations mentioned in this decree have been modified to “illicit administrative actions” in Legislative Decree 30 December 1999 No. 507

5.2.2 Safety rules regarding manning

According to Legislative Decree 24 March 2003, n. 53 (see section 5.2.3), the safety rules regarding manning can be considered strict.

5.2.3 Special regulations on safety and the environment

Italy has taken measures to implement Directive 2009/16/CE, concerning port state control, by means of Legislative Decree 24 March 2011, n. 53.

Law 7 March 2001 No. 51, modified by Law 1 August 2002 No. 166 and Law 9 January 2006, n.13, introduced new rules to prevent oil pollution, providing incentives to demolish single-hull tankers more than 20 years old. The legislative measure, moreover, encourages the utilization of the vessel traffic system and the Global Maritime Distress and Safety System to improve maritime traffic safety.

5.3 Registration

5.3.1 Registration requirements

To get on the Italian register, a ship must be owned by an Italian or an EU entity (individual or company).
New buildings or ships previously registered in a non-EU register can be registered in Italy by non-EU entities, provided that such an entity has a permanent establishment in Italy and the management of the ship is entrusted to an Italian or EU entity.

5.3.2 Ship registration procedure

Registration is granted upon presentation to the local authorities of a document constituting proof of ownership (builder’s certificate or bill of sale), documentation relating to requirements mentioned in section 5.3.1 above, a tonnage certificate and a deletion certificate (if the ship was previously registered in a foreign register).

5.3.3 Parallel registration

Both “flagging in” and “flagging out” are possible under Laws No. 234/1989 and No. 30/1998.
Ships registered in a foreign register and bareboat chartered to an Italian (or EU) entity can be temporarily chartered to an Italian (or EU) entity in accordance with the rules set forth in the aforementioned laws.
registered in the Italian international register. Furthermore, an Italian ship can be bareboat chartered to a foreign entity and be temporarily suspended (but not deleted) from the Italian register in order to be temporarily registered in a foreign register. The above requires government authorization, which is granted on the basis of both satisfactory guarantees being provided to creditors and an agreement with the unions. Such a flag-out does not affect mortgages registered on the ship. However, it affects the number of Italian seafarers on board the vessel.

5.3.4 Requirements for the officers and crew serving on vessels
Seafarers on Italian ships must be Italian or EU citizens.
Different rules apply to ships registered in the Italian international register and to ships bareboat chartered in accordance with Law No. 234/89.
In both cases, the number of non-EU seafarers on board has to be negotiated with the unions.

5.3.5 International conventions regarding registration
There are no international conventions in force in Italy regarding the registration of ships.

5.3.6 Special requirements/rules relating to registration
No special requirements apply.
Japan

1. Tax

1.1 Tax facilities for shipping companies

1.1.1 General corporate tax rule
In general, shipping companies are subject to taxation under the ordinary corporate tax regime, which includes national corporate income tax, local inhabitants’ tax and enterprise tax. The current effective tax rate (the sum of the aforementioned taxes) is approximately 32%. The rate continues to be reduced and should fall below this level in 2017/2018.

1.1.2 The Japanese tonnage tax system
The Japanese tonnage tax system was introduced on 17 July 2008 as an entirely new taxation system for shipping companies, the intention being to substantially increase the number of Japanese-flagged vessels and Japanese crews.

Under the system, income derived from international shipping activities conducted by Japanese-flagged vessels with certain operational requirements can qualify for an alternative tax treatment to the general corporate tax rule described above. The taxable basis under this system is calculated by reference to the qualifying daily net tonnage of each ship operated by the shipping company per the table below. In order to qualify, shipping companies had to apply for approval to the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) under the Maritime Transportation Act before 31 March 2014. The tonnage tax system applies to national corporate income tax, local inhabitants’ tax and enterprise tax of the qualifying company.

For Japanese-flagged vessels:

<table>
<thead>
<tr>
<th>Total net tonnage</th>
<th>Deemed profit per day per 100 net tons (JPY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 1,000</td>
<td>120</td>
</tr>
<tr>
<td>1,001-10,000</td>
<td>90</td>
</tr>
<tr>
<td>10,001-25,000</td>
<td>60</td>
</tr>
<tr>
<td>More than 25,000</td>
<td>30</td>
</tr>
</tbody>
</table>

To apply the tonnage tax system for the income derived from international shipping activities conducted by Japanese-flagged vessels, shipping companies have to submit certain applications to their tax offices by the day preceding the first day of the first fiscal year for which the shipping companies intend to apply the tonnage tax system and attach certain schedules to their tax returns during the applicable periods. Generally, the tonnage tax system should then apply continuously for the five years immediately following approval.

In addition, in cases where approval under the Maritime Transportation Act is withdrawn during the applicable period, the normal corporate tax regime would apply, and thus, the amount already treated as nontaxable income under the tonnage tax system would be added back to the normal taxable income of shipping companies at the time of withdrawal.

1.1.3 2013 tax reform
Under the 2013 tax reform, income derived from international shipping activities conducted by Japanese-flagged vessels and semi-Japanese-flagged vessels can qualify for the Japanese tonnage tax system. Semi-Japanese-flagged vessels are defined as non-Japanese-flagged vessels with certain operational requirements held by corporations conducting international shipping activities under the Maritime Transportation Act.

To apply the new tonnage tax system for the income derived from international shipping activities conducted by Japanese-flagged vessels and semi-Japanese-flagged vessels, shipping companies must receive approval from 1 April 2013 to 31 March 2014 for certain schedules from MLIT. The taxable basis of semi-Japanese-
flagged vessels is calculated by the shipping company per the table below:

<table>
<thead>
<tr>
<th>Total net tonnage</th>
<th>Deemed profit per day per 100 net tons (JPY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 1,000</td>
<td>180</td>
</tr>
<tr>
<td>1,001–10,000</td>
<td>135</td>
</tr>
<tr>
<td>10,001–25,000</td>
<td>90</td>
</tr>
<tr>
<td>More than 25,000</td>
<td>45</td>
</tr>
</tbody>
</table>

1.2 **Tax facilities for seafarers**
In general, a Japanese seafarer is subject to individual income tax at the standard progressive rate, with a current maximum rate of 55% (including national and local tax). However, certain daily allowance payments, based on the labor agreement, and certain medical stipends are exempt for individual income tax purposes.

1.3 **Tax treaties and place of effective management**
Japan has ratified tax treaties with 96 countries and jurisdictions. Most treaties have special articles for international shipping income.

According to domestic Japanese tax rules, a corporate body is deemed to be resident in Japan if it is registered (incorporated) in Japan. Under most of Japan’s tax treaties, a corporate body’s income derived from shipping operations is generally subject to profits tax in the place of residence (incorporation) instead of the place of effective management.

In addition to these tax treaties, Japan also has reciprocity rules with certain foreign jurisdictions under which Japan may grant exemptions for shipping income earned by such foreign resident companies.

1.4 **Freight tax**
There are no freight taxes levied in Japan.

1.5 **Consumption tax (Japanese value-added tax)**
Shipping companies should be treated as normal corporations for Japanese consumption tax purposes and should be subject to consumption tax at the rate of 8%. This tax rate will be increased to 10% on 1 April 2017.

Domestic transportation fees are considered to be taxable sales, while international transportation fees are considered to be exempt sales.

1.6 **Special vessel registration benefits for the shipowner**
Registration and license tax are reduced with respect to registration of ownership of certain vessels in Japan.

2. **Human capital**

2.1 **Formalities and regulations for employing personnel**
In general, the following conditions have to be met and standards have to be respected in order to hire personnel:

- Equal employment opportunities for men and women
- No age discrimination
- Working hour limitation
- Period of labor contract
- Holiday allowance
- Amount of wages
2.2 National labor laws
The Labour Standards Law and the Seaman Law apply to crew members of registered ships in Japan.

2.3 Labor union law
A major collective labor agreement regulates the minimum wage and working conditions, among other things, between all Japanese seafarers' unions and employers, which includes most of Japan's shipping companies.

2.4 Treaties relating to social security contributions
Japan has treaties relating to social security contributions (international Social Security agreements) with 19 countries, including the United Kingdom and the United States. Treaties with four other countries are currently in the process of negotiation.

2.5 Manning issues with flying the Japanese flag
Under Japanese law, it is necessary to pass a national examination and finish a training program designated by MLIT to qualify for a seafarer license and title. According to The Current State of Japanese Shipping, as drawn up by the Japanese Shipowners' Association (JSA), it is generally regarded as very expensive to employ Japanese crews.

3. Corporate structure

3.1 Most commonly used legal structures for shipping activities
Most shipping companies adopt the joint stock corporation (kabushiki-kaisha) as their legal structure.

3.2 Taxation of profit distribution
Dividends distributed by domestic corporations to domestic and foreign companies are generally subject to a 20.42% withholding tax (a 2.1% surtax is levied on 20% of the withholding tax rate) until 31 December 2037. The tax rate will be 20% thereafter. However, withholding tax on dividends distributed to foreign companies may be reduced by applicable income tax treaties.

4. Grants and incentives

4.1 Specific and general subsidies available to shipping companies
Some subsidies are available for shipping companies in Japan. For instance, the government subsidizes companies that ship daily necessities to isolated islands.

4.2 Investment incentives for shipping companies and the shipbuilding industry
There are some major incentives for shipping companies for tax purposes, such as a special depreciation rate available for ships and a deferral of capital gains arising from the replacement of ships. Also, some incentives, such as the special depreciation regime, may be available to certain shipbuilding companies.

4.3 Issues with flying the Japanese flag
Generally, the cost of flying the Japanese flag is higher than in other countries. JSA stated on its website that this is due to the high rates of registration tax and fixed assets tax, the requirement of employing Japanese crews (which are expensive), and strict regulations for vessels and equipment.

4.4 Major changes in shipping subsidy legislation anticipated in the near future
No changes are noted.
5. General information

5.1 Infrastructure

5.1.1 Major ports
The major international (container) ports are:
• Kawasaki
• Kobe
• Nagoya
• Osaka
• Tokyo
• Yokohama

5.1.2 Port facilities
The following support facilities are usually available in major ports in Japan:
• Maintenance and repair
• Docking
• Storage
• Cranes for every size of vessel

5.1.3 Support services for the shipping industry
The following support facilities for the shipping industry are usually available in Japan:
• Banks with a shipping desk
• Consulting firms specializing in shipping
• Maritime law services
• Insurance brokers for the shipping industry

5.1.4 Maritime education
The major maritime educational institutions are:
• Kobe University
• National college(s) of marine technology
• Tokai University (Tokyo)
• Tokyo University of Marine Science and Technology
The universities and colleges provide specialized courses in maritime science, technology and engineering, and oceanography.

5.2 Safety and environmental issues

5.2.1 Implementation of the International Safety Management Code
All passenger ships that sail internationally and all oil tankers with a total weight exceeding 500 tons are required to implement the International Safety Management (ISM) Code. Other domestic vessels that are not obliged to implement the ISM Code are strongly requested to voluntarily comply with the ISM Code.

5.2.2 Safety rules regarding manning
Japanese safety regulations, such as the Labour Standard Law and the Seaman Law, are generally considered to require the maintenance of a high standard.

5.2.3 Special regulations on safety and the environment
Japan is a party to the International Convention for the Prevention of Pollution from Ships (MARPOL), which regulates the standards for construction of vessels and facilities on a technological basis, and the International Convention for the Safety of Life at Sea (SOLAS), which regulates the security of life at sea.
5.3 Registration

5.3.1 Registration requirements
The maritime authority requires all Japanese ships weighing 20 tons or more and able to sail on their own to
be registered and defines Japanese ships as follows:
- Ships owned by the government of Japan or a Japanese public office
- Ships owned by a Japanese national
- Ships owned by a corporation established under Japanese law (e.g., kabushiki-kaisha, godo-kaisha, goshi-
  kaisha and gomei-kaisha) and more than two-thirds of whose representatives are Japanese nationals
Also, the maritime authority stipulates the rights and obligations of Japanese ships.

5.3.2 Ship registration procedure
An owner of a ship that meets the requirements in Japan applies to register for each local authorization after
completing the registration at the Legal Affairs Bureau.

5.3.3 Parallel registration
Parallel registration is not permitted.

5.3.4 Requirements for officers and crew serving on vessels
The captain and the chief engineer of a Japanese ship must be Japanese nationals. Minimum education and
professional qualifications are required for officers and crew. To become a navigation officer, ship pilot or ship
officer, it is necessary to pass a national exam.

5.3.5 International conventions regarding registration
There are no international conventions in force in Japan regarding the registration of ships.

5.3.6 Special requirements and rules relating to registration
There is no information available on any other special requirements or rules regarding registration other than
the requirements and rules stated above.

5.4 General comments
Useful shipping-related information is available in English at the JSA website: http://www.jsanet.or.jp/e/index.
.html.
Luxembourg

1. Tax

1.1 Tax facilities for shipping companies

Tax rate

Luxembourg does not have a tonnage tax regime. Thus, a Luxembourg shipping company, as defined by the Maritime Act of 1990 as amended in 1992, 1994 and 2006, is subject to corporate income tax (CIT) and municipal business tax (MBT). CIT ranges from 20% to 21%, depending on the level of taxable income. MBT ranges from 6.75% to 12%, depending on the municipality in which the shipping company is established. Income derived from the operation and leasing of seagoing vessels used in international traffic is, however, exempt from MBT. CIT is increased by a contribution to the employment fund of 7% of the CIT due. Thus, the maximum nominal tax rate applicable to income derived by a Luxembourg shipping company from the operating and leasing of seagoing vessels used in international traffic amounts to 22.47%. Luxembourg resident companies, including shipping companies, are also subject to net wealth tax (NWT) levied at a rate of 0.5% on their net asset value as of 1 January of each year.

General minimum tax

As of 1 January 2016, the minimum CIT regime that applied to all taxpayers subject to CIT between 2011 and 2015 has been replaced by a new minimum NWT regime. The minimum NWT payable ranges from €535 to €32,100 depending on the balance sheet total as of the financial year’s closing date.

Investment tax credit

A Luxembourg company may benefit from an income tax credit for investment in certain qualifying assets, i.e., the investment tax credit. The credit is deductible from the CIT due by the company and may thus contribute to a substantial reduction of the effective tax rate applicable to income derived by a Luxembourg shipping company from the operation and leasing of seagoing vessels.

The investment tax credit comprises two parts:

- A complementary investment tax credit is computed on the difference between the net book value of the qualifying assets as of the end of a relevant fiscal year and the average book value of the qualifying assets as of the end of the five preceding fiscal years, i.e., the complementary investment. The complementary investment tax credit granted is 12% of the complementary investment.
- A global investment tax credit is computed based on the acquisition price of the qualifying assets acquired during the relevant fiscal year. The global investment tax credit granted is 7% of the investments up to €150,000 and 2% of the exceeding amount of investments.

Investments qualify for the investment tax credit if they meet a certain number of conditions, notably:

- The investment must be in tangible fixed assets that are depreciated over at least three years.
- The assets acquired must be new or previously owned, when demonstrated that a secondhand vessel has not benefited from the investment tax credit in the past.
- The investment must be physically operated in a European Union (EU) Member State or in the European Economic Area (EEA), which comprises EU Member States, Iceland, Liechtenstein and Norway. In the case of an investment used abroad, this investment may only qualify for the investment tax credit to the extent that the investment is used in a permanent establishment located in Luxembourg.

The last two conditions do not need to be fulfilled in relation to seagoing vessels operated in international traffic by shipping companies. In the case of the investment used in seagoing vessels, however, the shipping company must demonstrate that the vessel did not benefit from the investment tax credit in the past.

The investment tax credit is also available under certain conditions for qualifying assets financed by leasing. The unused tax credit may be carried forward for 10 years.

Tax treatment of capital gains on the sale of vessels
Capital gains arising from the transfer or disposal of assets are considered as ordinary profits, taxable at standard income tax rates.

Under certain conditions, capital gains realized by a Luxembourg shipping company on the transfer of seagoing vessels used in international traffic may, however, be rolled over by reinvesting the proceeds from the transfer into newly acquired fixed assets. Such newly acquired fixed assets do not necessarily need to be of the same kind; they can consist of real estate, located in Luxembourg, depreciable fixed assets, or shareholdings in Luxembourg or foreign companies. Both the vessel and the new replacement assets need to be invested in a Luxembourg business. However, the law of 26 May 2014 provides that the replacement asset can also be allocated to a permanent establishment of a Luxembourg company located in another Member State of the EEA provided that the assets are clearly identified and that specific rules are respected. Thus, the taxation of capital gains realized upon the disposal of seagoing vessels used in international traffic may be deferred.

**Provisions for large-scale repair and maintenance work to vessels**

In principle, provisions for losses or debt recorded by a Luxembourg company are only deductible for income tax purposes if they are determined precisely and cover expenses that are triggered in the fiscal year in which the provision is recorded. As a consequence, provisions for large-scale repair and maintenance work may be disallowed. In the case of a Luxembourg shipping company, tax authorities, however, usually accept provisions for large-scale repair and maintenance work as fully tax deductible in the year they are booked.

**Depreciation rules**

A shipping vessel can be depreciated by using the straight-line (or linear) depreciation method or, subject to a certain number of conditions, the declining balance (or accelerated depreciation) method.

Depreciation of a vessel is based on the useful life of the vessel. Where the declining balance method is used, the depreciation rate may not exceed three times the straight-line depreciation rate (e.g., 25% in the case of a depreciation period of 12 years) or 30%.

A shipping business making eligible investments aiming to protect the environment and the rational use of energy, as well as the equipment of working places for disabled persons, may elect for an accelerated tax amortization of the eligible investments during the year of acquisition and the four following fiscal years. The accelerated depreciation may not exceed 80% of the acquisition cost.

**Carryforward of losses**

Losses incurred during previous accounting periods that have not yet been set off against the taxable income of the current accounting period may be carried forward indefinitely.

There is no carryback of losses available under Luxembourg tax law.

**Indirect tax**

The value-added tax (VAT) package rules that entered into force on 1 January 2010 modified how the place of supply of the hiring of vessels is determined. These rules have been further modified as of 1 January 2013. From 1 January 2013, the suppliers performing this type of operation must determine the place of supply as follows:

- The “short-term” hiring of vessels (i.e., continuous possession or use of the vessels throughout a period of not more than 90 days) shall be the place where the means of transport is actually put at the disposal of the customer.
- The “long-term” hiring of vessels (i.e., continuous possession or use of the vessels throughout a period of more than 90 days) supplied to a VAT taxable person shall be the place where the client has established his business or, if the services are provided to a fixed establishment, at the place of this fixed establishment. In absence of establishment or fixed establishment, the place shall be the place where the taxable person has his permanent address or usually resides. On the other hand, the long-term hiring of vessels supplied to a non-VAT taxable person shall be the place where the customer is established, has his permanent address or usually resides. However, the place of long-term hiring of a pleasure boat to a non-VAT taxable person shall be the place where the pleasure boat is actually put at disposal of the customer,
where this service is actually provided by the supplier from his place of business or a fixed establishment situated in that place.

When they are deemed to be located in Luxembourg, a VAT exemption applies to supplies of goods or services in relation to vessels for the navigation on the high seas used for carrying travelers for consideration or the exercise of commercial, industrial or fishing activities, or for rescue or assistance at sea, or inshore fishing, except the supply of ship's provisions in case of vessels used for inshore fishing.

The supplies that can benefit from this VAT exemption are, for example, the transformation, repair, maintenance, charter and lease of ships used under the conditions as stated above. Service providers are, however, subject to administrative obligations such as VAT registration, VAT returns and the issuing of compliant invoices.

1.2 Tax facilities for seafarers

The allocation of taxation right begins by determining whether any double tax treaties have been concluded between Luxembourg and the country of residence of the seafarer (if any).

If the taxation right belongs to Luxembourg, the following applies:

- Luxembourg resident crew members are subject to the common Luxembourg taxation regime for individuals. The Luxembourg shipping company has to withhold tax and social security contributions on the salary payments.
- The remuneration paid to nonresident crew members employed by a Luxembourg shipping company in international maritime traffic is subject to a 10% flat tax rate in Luxembourg. This flat tax rate applies to 90% of their gross remuneration, less a lump sum deduction of €1,800 per month or €72 per day.
- In addition, a new temporary budget balancing tax of 0.5% has been introduced since 1 January 2015. The employer is responsible for withholding the tax and remits it either to the Luxembourg social security authorities if the crew member is affiliated under the Luxembourg scheme, or to the Luxembourg tax authorities otherwise, by completing a special form.

1.3 Tax treaties and place of effective management

Luxembourg has concluded double tax treaties with the following jurisdictions:

Armenia, Austria, Azerbaijan, Bahrain, Barbados, Belgium, Brazil, Bulgaria, Canada, China, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Guernsey, Hong Kong, Hungary, Iceland, India, Indonesia, Ireland, Isle of Man, Israel, Italy, Japan, Jersey, Kazakhstan, Korea (South), Laos, Latvia, Liechtenstein, Lithuania, Macedonia, Malaysia, Malta, Mauritius, Mexico, Moldova, Monaco, Morocco, Netherlands, Norway, Panama, Poland, Portugal, Qatar, Romania, Russian Federation, San Marino, Saudi Arabia, Seychelles, Singapore, Slovak Republic, Slovenia, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Taiwan, Tajikistan, Thailand, Trinidad and Tobago, Tunisia, Turkey, United Arab Emirates, United Kingdom, United States of America, Uzbekistan and Vietnam.

Treaty drafts have been initialed and/or new treaties or amendments to existing treaties have been signed with the following countries: Albania, Andorra, Argentina, Botswana, Brunel Darussalam, Cyprus, Egypt, Kuwait, Kyrgyzstan, Lebanon, Montenegro, New Zealand, Oman, Pakistan, Senegal, Serbia, Syria, Ukraine and Uruguay.

The double tax treaties were concluded in compliance with the Organisation for Economic Co-operation and Development model treaty, which provides that “profits from the operation of ships in international traffic shall be taxable only in the Contracting State in which the place of effective management of the enterprise is situated.”

Under Luxembourg tax law, the place of effective management is the place where the management decisions are made and where control over the affairs of a company is carried out. With reference to Luxembourg jurisprudence, the place of effective management is thus, in principle, deemed to be where the board of directors or the management board, as well as the shareholder meetings, convenes.

In a constantly evolving international environment, these criteria may, however, not be sufficient in the eyes of a foreign taxing authority to establish the place of effective management in Luxembourg, and additional substance may be required. In the case of a fully operational shipping company duly registered in
Luxembourg, sufficient substance should exist.
Should no tax treaty apply, a foreign tax credit is available under Luxembourg domestic law for foreign source income that has been subject to an equivalent income tax abroad. The maximum tax credit may not exceed the Luxembourg CIT chargeable on the foreign income. Any foreign tax that may not be credited against CIT is deductible as an expense when computing taxable income.

1.4 Freight taxes
No freight taxes are levied in Luxembourg.

1.5 Tonnage tax regime
Luxembourg does not have a tonnage tax regime.

1.6 Special vessel registration benefits for the shipowner
The registration of vessels in Luxembourg does not provide particular tax benefits for the shipowner.

1.7 Major changes to tax law anticipated in the near future
No further major changes are anticipated in the current legislation.

2. Human capital

2.1 Formalities and regulations for employing personnel
There is no condition of nationality for crew members to be fulfilled when employing personnel. The master (subject to the relevant qualifications) of a Luxembourg-flagged ship has to be a citizen of the EU. However, the Minister of Economy and Foreign Trade (hereafter, Minister) may grant exemptions under certain circumstances. From the start of the employment, crew members must have a written employment contract. The contract must state the identity of both parties, the start date and place of employment, whether the contract is for a limited or unlimited term, job description, wages, social security regime applicable, etc. All seafarers must undergo a medical check before boarding.

2.2 Labor law
2.2.1 National labor law
Any employment contract between a shipowner and a crew member for intended or current service on board a ship flying the Luxembourg flag qualifies as a maritime employment contract, subject to the provisions of the Maritime Act of 1990, as amended. The law ensures that crew members employed on a Luxembourg-flagged ship will receive a satisfactory level of social security benefits.

2.2.2 Collective labor law
Most ships flying under the Luxembourg flag benefit from a collective bargaining agreement. In accordance with Luxembourg law on collective bargaining agreements, shipowners may, in the common interest of the crew on board their ships flying the Luxembourg flag, conclude a collective bargaining agreement with a national representative trade union that can fairly claim to represent the crew members, either by direct affiliation or by a structural or contractual link with a trade union representing seafarers.

A collective bargaining agreement determines:
- The quality of the parties
- The professional and territorial field of application
- The date when the agreement comes into force and its duration
- The working conditions, which comprise:
  - Hiring and dismissal
  - Working hours
• Supplementary work
• Wage level
• Complementary provisions that are more favorable to the salaried than the statutory regulations

2.3 Social security regulations

2.3.1 International social security regulations

Luxembourg is subject to the EU regulations, which provide coordination among the social security systems of EU countries. These regulations also apply to the three EFTA countries (Iceland, Liechtenstein and Norway) and Switzerland.

In addition, Luxembourg has entered into bilateral social security agreements with countries outside the EU, and most of these agreements include clauses on seafarers from the following: Argentina, Bosnia-Herzegovina, Brazil, Canada, Cape Verde, Chile, Iceland, India, Macedonia, Moldova, Montenegro, Morocco, Quebec, Serbia, Tunisia, Turkey, United States and Uruguay.

Four new bilateral social security agreements have been signed by Luxembourg with Albania, Japan, Philippines and Ukraine. They are expected to enter into force in the near future.

2.3.2 Luxembourg social security regulations

The crew members employed on a Luxembourg-flagged ship must be affiliated with the Luxembourg social security scheme if one of the following is true:

• They are Luxembourg nationals.
• They are nationals of a country that has a bilateral social security agreement with Luxembourg.
• They are residents of Luxembourg or of an EU country.

If none of the above conditions is met, the owner of the Luxembourg-flagged ship must guarantee social protection to personnel working on his or her ship. In this respect, the shipowner must subscribe to an insurance program covering benefits such as health, unemployment, retirement and disability.

The Luxembourg authorities may waive these obligations if the shipowner can prove that the crew members benefit from social security protection in their respective country of residence equivalent to the Luxembourg social security scheme.

For crew members employed by a Luxembourg employer and working on board a ship with a foreign flag, the Luxembourg social security system does not apply.

2.4 Manning advantages or disadvantages of flying the Luxembourg flag

The main tax advantage when flying the Luxembourg flag is explained in section 1. Moreover, crew members of ships flying the Luxembourg flag are also covered by Luxembourg labor law and an advantageous social care system, unless diverging provisions are imposed by treaty (e.g., the treaty with India).

3. Corporate structure

3.1 Most commonly used legal structures for shipping activities

Operational vehicles

A Luxembourg shipping company, as defined by the Maritime Act of 1990 as amended, must be understood as referring to any person or legal entity, whether of Luxembourg or foreign nationality, whose business is the buying and selling, the chartering in and out, and the management of seagoing ships, as well as the financial and commercial operations that relate directly or indirectly to such activities.

Common activities typical for Luxembourg shipping companies include maritime transport and non-transport activities, such as dredging, drilling and pipeline-laying.

The regime does not limit in any way the choice of the legal form of the company. Generally, most operating
shipping companies are incorporated as joint-stock companies (e.g., Société Anonyme or S.A., Société à responsabilité limitée or S.à r.l., and Société en Commandite par Actions or S.C.A.).

Luxembourg companies are in general taxable at CIT amounting to 22.47% and MBT carrying from 6.75% (rate for Luxembourg City) to 12% depending on the municipality where the company is established. The taxable base is calculated on the business profits after the deduction, among others, of general expenses, depreciation installments, financial charges, provision for necessary or large-scale repairs, and tax losses carried forward. Investment tax credits will reduce the CIT.

Luxembourg shipping companies operating in international traffic are not subject to MBT on qualifying income. The effective applicable tax rate for qualifying shipping companies will therefore in most cases be 22.47%.

Finally, Luxembourg companies are liable for net worth tax (NWT) amounting to 0.5% of the adjusted net asset value. However, NWT may, under certain conditions, be reduced up to the amount of theoretical minimum NWT due by the shipping company.

Groups of companies

Until 2014, the Luxembourg law only provided for a “vertical tax consolidation,” i.e., a tax consolidation between two or more Luxembourg resident companies owned by the same Luxembourg resident parent company or by the same Luxembourg permanent establishment of a nonresident company which is fully liable to a tax corresponding to the Luxembourg corporate income tax. As from tax year 2015 on, the so-called horizontal tax consolidation has been introduced into Luxembourg law. This is a consolidation between two or more Luxembourg-resident companies owned by the same nonresident parent, provided the parent company is resident in a State of the European Economic Area (EEA). Additionally, a new provision is introduced allowing Luxembourg permanent establishments of a nonresident company (irrespective of its fiscal residence), to be included in a tax consolidation, provided however that this company is fully liable to a tax corresponding to Luxembourg corporate income tax. Until 2014, only Luxembourg-resident capital companies could be part of a tax consolidation group.

Investing and financing vehicles

Besides the favorable tax regime of operating shipping companies, Luxembourg offers diversified investment vehicles and/or structures to different types of potential financial investors, for both direct and indirect (via an intermediary holding company in Luxembourg or abroad) investments, as shown below.
**Luxembourg holding company**

Investments in shipping companies may be made through a Luxembourg resident company, which is a fully taxable company. It benefits from the parent-subsidiary exemption and the double tax treaties signed by Luxembourg. The aim of such a company can be limited to the holding and management of participations and providing financing to its subsidiaries and related parties (often referred to as société de participations financières (SOPARFI)), but it can also be extended so as to include any commercial activity.

- Any profits distributed by or any capital gain realized on the transfer of a shareholding in a shipping company is tax-exempt to the extent that the conditions of the Luxembourg participation exemption are met. The Luxembourg company is one of the following:
  - a Luxembourg resident fully taxable collective undertaking incorporated as société anonyme (SA), or joint-stock company also often referred to as public limited liability company; société à responsabilité limitée (Sàrl), or private limited liability company; société en commandite par actions (SCA), or partnership limited by shares; or a société coopérative (Coop), or co-operative company
  - a Luxembourg resident fully taxable corporation not listed in the legal provision pertaining to the participation exemption
  - a Luxembourg permanent establishment of a corporation resident in a State with which Luxembourg has concluded a double tax treaty
  - a Luxembourg permanent establishment of a corporation or of a cooperative company resident in a State party to the European Economic Area (EEA) Agreement other than a Member State of the European Union
  - The Luxembourg company owns at least 10% of the share capital of the shipping company, or the acquisition cost of the shareholding is at least €1.2 million in the case of a dividend distribution or €6 million in the case of a capital gain realized upon the transfer.
  - The Luxembourg company holds the minimum participation in the shipping company for at least 12 months. The 12-month period does not need to be completed at the time of the distribution of the dividends if the Luxembourg company commits itself to hold the minimum participation for the required period. The shipping company is a collective undertaking covered by article 2 of the Council Directive of 30 November 2011 on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States (2011/96/EU) or a Luxembourg resident fully taxable corporation not listed in the legal provision pertaining to the participation exemption or a non-resident corporation fully subject to a tax corresponding to Luxembourg CIT.
  - Expenses in direct relation to the participation holding are only tax deductible to the extent that they exceed the tax-exempt income coming from the participation.

The exemption for dividends also applies to dividends on participations held through qualifying fiscally transparent entities.

Such exemption is not granted, however, if the income is allocated in the context of an arrangement or a series of arrangements which, having been put into place for the main purpose, or one of the main purposes, of obtaining a tax advantage that defeats the object or purpose of the PSD, are not genuine having regard to all relevant facts and circumstances. An arrangement, which may comprise more than one step or part, or a series of arrangements, shall be regarded as not genuine to the extent that they are not put into place for valid commercial reasons which reflect economic reality. This anti-abuse provision only applies to distributions falling within the scope of the Parent-Subsidiary Directive. As a consequence, distributions to/from a company resident in a treaty country and fully liable to a tax corresponding to the Luxembourg CIT are not affected by this provision. It is also understood that the anti-abuse provision does not apply to capital gains and NWT exemption.

Furthermore, the Luxembourg tax exemption for income derived from an otherwise qualifying EU subsidiary will not be applicable to the extent that this income is deductible by the EU subsidiary. This anti-hybrid rule
only applies within the EU, i.e., it is not applicable to hybrid arrangements between a Luxembourg entity and a non-EU parent or subsidiary.

As of 1 January 2016, Luxembourg companies are subject to minimum NWT (see section 1.1).

Private wealth management company

In 2007, a new law introduced a private wealth management vehicle (Société de gestion de patrimoine familial (SPF)), which was implemented by the Luxembourg authorities to replace the former holding 29 company. The SPF is a vehicle benefiting from a preferential tax regime that is intended for private wealth and asset management of individuals by the passive holding of shares or other financial instruments and liquidities. Thus, an SPF cannot directly hold a vessel.

According to the tax regime, the SPF is not subject to CIT, MBT or NWT. Furthermore, the distributions of an SPF are exempt from withholding tax (WHT). However, the SPF is subject to the subscription tax at a rate of 0.25% on the total of the paid-up capital, the share premium, and the amount of the debt exceeding eight times the sum of the paid-up capital and share premium as of 1 January. For SPFs, the subscription tax is capped at €125,000.

No capital duty applies on incorporation except a registration duty of €75.

Investment company in risk capital

The investment company in risk capital (société d'investissement en capital à risque (SICAR)) was created in 2004 and is a dedicated vehicle for private equity and venture capital investments. It can be set up as a limited partnership or as a corporate company. The SICAR is approved and supervised by the Commission for the Supervision of the Financial Sector (CSSF), but it is subject to few restrictions. It may have a flexible investment policy with no diversification rules or leverage restrictions.

The following conditions have to be fulfilled for a company to qualify as a SICAR:

- It is set up with a share capital of at least €1 million.
- Its purpose is to invest in securities representing risk capital.
- Investment in the SICAR is only possible for institutional investors, professional investors and any other well-informed investor as defined by the law (e.g., investing a minimum capital of €125,000) (see also SIF below).
- The articles explicitly provide that the company is subject to the SICAR law.

The tax treatment differs depending on the legal form of the SICAR (i.e., tax transparent partnership or nontransparent corporate company). If the SICAR is set up as a corporate company, it is subject to CIT and MBT. However, income derived from transferable financial assets is exempt from CIT and MBT. Moreover, the SICAR benefits from the Luxembourg participation exemption and from the double tax treaties concluded by Luxembourg.

In addition, the SICAR is not liable for subscription tax or NWT and is subject to a fixed registration duty of €75 payable upon incorporation.

Dividends distributed by a fully taxable Luxembourg company to a SICAR may benefit from the Luxembourg parent-subsidiary WHT exemption.

Dividends distributed by a SICAR are exempt from WHT.

Securitization company

Securitization companies can take the form of regulated investment funds managed by a management company or companies that, depending on their activities, may or may not be regulated. These vehicles are available for securitization transactions in the broadest sense and are not subject to NWT. They are subject to CIT and MBT. However, commitments to investors (dividend and interest payments) are deductible from the tax base.

Undertakings for collective investments
Luxembourg also offers various investment funds, such as:

- Unincorporated co-ownership of assets (Fonds commun de placement (FCP))
- Investment company with variable capital (Société d’investissement à capital variable (SICAV))
- Investment company with fixed capital (Société d’investissement à capital fixe (SICAF))

The funds need to be authorized by the CSSF. These entities are subject to subscription tax levied on their total net asset value, excluding investments in other Luxembourg investment funds. Distributions made by these funds are not subject to WHT. Undertakings for collective investments (UCIs) set up under Part II of the Luxembourg law on undertakings for collective investment have a proven track record for the structuring of Luxembourg-based, open- and closed-ended shipping funds.

Specialized investment funds (SIFs) are more lightly regulated investment funds for “well-informed investors.” In this context, a well-informed investor is one of the following:

- An institutional investor
- A professional investor
- Any other type of investor who has declared in writing that he or she is a well-informed investor and either invests a minimum of €125,000 in the fund or has an appraisal from a bank, an investment firm or a management company (from a European country), certifying that the investor has the appropriate expertise, experience and knowledge to adequately understand the investment made in the fund

SIFs are subject to significantly simplified rules for setting up fund structures, such as hedge funds, real estate funds and private equity funds. Investment funds in the form of SIFs are not subject to any Luxembourg taxes on capital gains or income. They are subject only to a subscription tax at an annual rate of 0.01% calculated on the quarterly net asset value of the fund, excluding investments in funds already subject to the subscription tax. Distributions by SIFs are not subject to WHT.

Range of investment vehicles

Islamic finance investment structures

As Islamic finance is much more focused on assets and lending to businesses, the shipping industry could become an important sector for the Islamic finance industry (vessels being by nature Sharia-compliant investments).

Luxembourg has a long experience with Islamic finance, hosting numerous Sharia-compliant investment funds. The Luxembourg Stock Exchange was also the first-ever European stock exchange to list and trade sukuk (bonds) in 2002. The government encourages Islamic companies and financial institutions to set up operations in Luxembourg.

In that respect, the Luxembourg tax authorities released guidance clarifying the tax treatment applicable to instruments of Islamic finance (in particular cost-plus financing Murabaha and leasing structures Ijara). This will reinforce the repatriation mechanism of Luxembourg’s Sharia-compliant financing instruments, as well as structuring capacities.

In addition, the CSSF has signed, over the past few years, cooperation agreements and memorandums of understanding (MoUs) with a significant number of supervisory authorities that have an Islamic finance orientation, reinforcing the position of Luxembourg as a leading Islamic finance center.
**Impact of AIFMD**

The Directive 2011/61/EU on alternative investment fund managers (AIFMD) was transposed into Luxembourg national law on 12 July 2013.

The purpose of AIFMD is “to provide for an internal market for alternative investment fund managers (AIFMs) and a harmonised and stringent regulatory and supervisory framework for the activities within the Union of all AIFMs.”  

AIFMD regulates AIFMs managing regulated or non-regulated alternative investment funds (AIFs) and may require that such an AIFM be authorized by the CSSF for this specific function. AIFs may be established as a SOPARFI, a SICAR, a SIF or a UCI Part II. However, the definition of an AIF expressly excludes securitization vehicles from the scope of AIFMD.

**3.2 Taxation of profit distribution**

Dividends paid by a Luxembourg shipping company are, in principle, subject to a statutory WHT rate of 15%, unless a reduction or exemption provided for by a double tax treaty or the Luxembourg participation exemption applies.

Under the Luxembourg participation exemption, dividends may be exempt if the following conditions are met:

- The recipient holds directly, or through a qualifying fiscally transparent entity, for at least 12 months a participation of at least 10% in the capital of the shipping company, which must be a Luxembourg resident fully taxable collective undertaking (incorporated as public limited liability company, private limited liability company, partnership limited by shares; or as co-operative company) or a Luxembourg resident fully taxable corporation not listed in the legal provision pertaining to the participation exemption, or the shareholding owned by the recipient had an acquisition cost of at least €1.2 million. The holding period requirement does not need to be completed at the time of the distribution if the recipient commits itself to eventually hold the minimum participation for the required 12-month period.

- The recipient satisfies one of the following additional requirements: collective undertaking covered by article 2 of the Council Directive of 30 November 2011 on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States (2011/96/EU) or a nonresident corporation fully subject to tax corresponding to Luxembourg CIT.
  - It is a Luxembourg resident fully taxable corporation not listed in the legal provision pertaining to the participation exemption or a permanent establishment of such entity.
  - It is a collective undertaking covered by article 2 of the Council Directive of 30 November 2011 on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States (2011/96/EU) or a permanent establishment of such entity.
  - It is a joint-stock company resident in Switzerland that is fully subject to tax in Switzerland without the possibility of exemption.
  - It is a collective undertaking resident in a state with which Luxembourg has entered into a tax treaty and is subject to a tax comparable to the Luxembourg corporate income tax, or it is a Luxembourg permanent establishment of such an entity.
  - It is a joint-stock company or a co-operative company resident in an EEA Member State and is subject to a tax comparable to the Luxembourg CIT, or it is a Luxembourg permanent establishment of such a company.

**4. Grants and incentives**

**4.1 Specific and/or general subsidies available to shipping companies**

Luxembourg provides a large range of general grants and incentives, either tax or nontax related. These are available to Luxembourg shipping companies if they comply with the qualifying conditions.

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1 Point 4 of the recital of the AIFM Directive.
4.2 **Investment incentives for shipping companies and the shipbuilding industry**
A Luxembourg shipping company or shipping business is entitled to obtain general investment tax credits as discussed under section 1.1.

4.3 **Special incentives for environmental awareness**
The rates for the global investment tax credit, as described in section 1.1, are increased from 7% to 8% and from 2% to 4% for certain investments intended to protect the environment.

Moreover, the government is actively supporting activities that foster the protection of the environment and the rational use of energy. Aid in the form of a capital grant or an interest allowance may be available in the case of investments made to improve environmental standards and the saving of energy.

An additional incentive is granted to businesses investing in environmental or energy-saving initiatives in the form of a special depreciation rate. Here, a maximum accelerated depreciation rate of 80% of the eligible investment is permitted to companies in the year of investment.

4.4 **Advantages or disadvantages of flying the Luxembourg flag**
There is no further advantage or disadvantage in flying the Luxembourg flag. More generally, Luxembourg is currently encouraging any new qualifying investment that would diversify the Luxembourg economy and foster research and development and innovation.

4.5 **Major changes in shipping subsidy legislation anticipated in the near future**
No major changes are anticipated.

5. **General information**

5.1 **Infrastructure**

5.1.1 **Major ports**
The major port located in Mertert gives access to cargo ships (up to 110m length) from the Rhine. Luxembourg thus has direct access to the port in Rotterdam. For smaller ships, it is connected to other ports in France through the Canal de l’Est and the Canal de la Marne.

5.1.2 **Port facilities**
The following facilities are available:
- Maintenance and repair
- Docking
- Storage
- Logistics – direct access to multimodal transportation services (Eurohub)

5.1.3 **Support services for the shipping industry**
The following support services for the shipping industry are readily available:
- New secured internet portal of the Luxembourg administration open to professionals of the shipping industry
- Banks with a shipping desk
- Consulting firms specializing in shipping
- Maritime law services
- Insurance brokers for the shipping industry

5.1.4 **Maritime education**
Maritime education is provided by the Commission of Maritime Affairs, which is part of the Ministry of Transport.
5.2 Safety and environmental issues

5.2.1 Implementation of the International Safety Management Code on board vessels
The majority of the shipping companies respect the International Safety Management (ISM) Code on board, which is compulsory for all vessels.

5.2.2 Safety rules regarding manning
The safety rules regarding manning are strict. In fact, every ship seeking registration in Luxembourg must be inspected by the inspection authority of an EU Member State or by the Luxembourg Commission of Maritime Affairs.

5.2.3 Special regulations on safety and the environment
The law includes a number of provisions designed to guarantee safety standards on board all ships flying the Luxembourg flag:

- Insurance: The shipowner must provide the Commission of Maritime Affairs with evidence of adequate third-party insurance, covering all categories of risk associated with operating a ship.
- International treaty conditions: No ship flying the Luxembourg flag may set to sea if it is not in compliance with the safety conditions set out in international treaties ratified by Luxembourg.
- Vessels are subject to regular technical inspection. The following classification societies have been authorized: American Bureau of Shipping, Bureau Veritas, Det Norske Veritas, Germanischer Lloyd, Lloyd's Register of Shipping, Class NK and Royal Institution of Naval Architects (RINA).
- Age limit: No ship more than 15 years old may be registered in Luxembourg for the first time.

5.3 Registration

5.3.1 Registration requirements
Requirements for registration of ships
The law provides for the compulsory registration of ships flying the Luxembourg flag to establish the ships’ legal status and to provide a single basic record for the registration of property rights and real rights.

All ships of at least 25 tons and that are less than 15 years old that are carrying out commercial shipping activities can be registered in Luxembourg. The Minister is authorized to deviate from the age limit provided that the ship has undergone significant design changes and it conforms to the standards applicable to new ships laid down in the international conventions to which Luxembourg is a party.

Only ships that are majority owned (more than 50%) by individuals who are nationals of an EU Member State or by companies whose place of management is in an EU Member State can be registered with the Luxembourg Maritime Register.

All, or a significant part, of the management of the ship must be carried out from Luxembourg. This significant part of the management is not defined in the law, which means that the fulfillment of this requirement is left to the Minister’s interpretation. In practice, some companies have set up the necessary structures in Luxembourg; others have signed management contracts with accredited shipping management companies.

Requirements for registration of shipping companies:
- Registration: The law provides for the compulsory registration of shipping companies with the Luxembourg competent authorities before commencing any activities.
- Commercial activity: A shipping company will have a commercial activity consisting of the purchase, sale, freighting, chartering and management of vessels, as well as related financial and commercial operations.
- No capital duty: The capital duty was abolished effective 1 January 2009 (only a lump-sum registration duty of €75 is due for some transactions).

There are no legal restrictions with regard to the nationality or the residence of the shareholder(s) of a Luxembourg shipping company. Its share capital may be denominated in any currency (including the euro).
5.3.2 Ship registration procedure

For the purpose of requesting the entry of a vessel in the Luxembourg Maritime Register, an application should be sent to the Minister. The application must be submitted by the owner, by the charterer (in the case of bareboat registration) or by the operator of the ship in whose name the ship is to be entered in the register.

The application for registration, together with the authorization of the Minister (or his or her delegate), shall be presented to the registrar of mortgages within 30 days of the granting of authorization of the registration of the ship.

The Commission of Maritime Affairs will forward the registration certificate to the registrar of mortgages, who shall issue it to the declarant, in return for a receipt, at the time of formal entry in the register.

The period of validity of the certificate may not exceed two years, and the actual duration shall be shown in the register. The registrar of mortgages shall forward without delay a copy of the registration certificate to the Commission of Maritime Affairs.

A provisional certificate, valid for a maximum of one year, may be issued for a ship that is still under construction or in cases where it has not proved possible to supply all the information required by the application for registration.

The issue of a registration certificate is evidence that the vessel is authorized to fly the Luxembourg flag.

5.3.3 Parallel registration

Parallel registration is not possible.

5.3.4 Requirements for officers and crew serving on vessels

Command of vessels

The command of a vessel flying the Luxembourg flag shall be entrusted to a national of an EU Member State who is the holder of a diploma awarded by a school of navigation that is recognized by Luxembourg. Exemption from this nationality requirement may be granted by a specific authorization of the Minister, particularly where the needs of commerce or of seafaring justify such exemption, or else in light of the origin of the ships that are applying for registration.

Crewmen's qualifications

All seafarers’ diplomas and certificates recognized in an EU Member State shall be likewise recognized in Luxembourg, provided that they are in accordance with the standards set out in the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers of 1978.

Composition of the crew

A certificate of safe manning, attached to the registration certificate, will be issued by the Commission of Maritime Affairs.

The master or the officer on duty will enter the names, addresses and ranks of the members of the crew in the ship's log.

5.3.5 International conventions regarding registration

All of the International Maritime Organization's (IMO) international conventions regarding registration have been adopted.

5.3.6 Special requirements and rules relating to registration

The issuance of the registration certificate triggers the payment of a fixed fee of €2,000 and a proportionate fee which amount depends on the net tonnage and the age of the vessel (varying between €0.40 and €0.65 per ton). The registration fee is capped at €20,000 for vessels aged between 0 and 5 years, €22,500 for vessels aged between 6 and 10 years and €25,000 for vessels over 11 years of age. The extension of the validity of the registration certificate beyond the first year of its issuance triggers the payment of registration fees at the same amounts as for the issuance of the certificate of registration.
Registration of maritime mortgages is exempt from all duty, except for a nominal amount, which goes toward the payment of the mortgage registrar’s salary. Furthermore, all acts of conveyance or transfer inter vivos of a vessel, or a vessel under construction, are exempt from all pro rata transfer and registration fees.

Vessels registered in Luxembourg are subject to public control by the Commission of Maritime Affairs. Prior to registration in Luxembourg, vessels must undergo a survey carried out by a recognized classification society. Services provided or unexpected surveys carried out by the commission are free of charge.

5.4 General comments
Commission of Maritime Affairs

The Luxembourg Commission of Maritime Affairs is actively participating in a quality management system leading to International Organization for Standardization 9001:2000 certification. In 2004 and 2005, the Commission of Maritime Affairs was the only public administration to participate in a national quality management competition and to obtain a distinction. Further, Luxembourg participated in the IMO Flag State audit scheme (self-assessment form) in July 2000 and is a volunteer for the new audit scheme.

In 2002, the Luxembourg fleet ranked among the first 10 countries to benefit from the American Qualship 21 label. Luxembourg is also on the White List of the Paris Memorandum of Understanding.

Over the years, Luxembourg has become a recognized location for shipping businesses with a merchant fleet of almost 250 seagoing vessels totaling an aggregate gross tonnage of 3.36 million as of January 2015. All shipping industry-related information (e.g., the law, the registration procedures, application forms) can be found on the homepage of the Commission of Maritime Affairs (Commissariat aux Affaires Maritimes) at www.maritime.lu. Further details, including an overview of all member companies can be found at www.cluster-maritime.lu.
Malaysia

1. Tax

1.1 Tax facilities for shipping companies

1.1.1 Malaysian resident shipping companies

Pursuant to the Malaysian Income Tax Act 1967 (MITA), shipping companies that are tax resident in Malaysia are subject to Malaysian corporate income tax on their worldwide income. The corporate income tax rate has been reduced to 24% with effect from the year of assessment 2016. Tax relief may be available for income taxes suffered overseas on income that is also taxed in Malaysia, provided certain conditions are met. Note that Malaysian resident shipping companies meeting certain conditions will qualify for certain tax exemptions on their shipping income (see section 1.5).

1.1.2 Nonresident shipping companies

A nonresident person carrying out sea transport in Malaysia is subject to Malaysian income tax only on gross income derived from Malaysia. “Gross income derived from Malaysia” is defined as the total of all sums first receivable by the operator for transporting, by sea, passengers or cargo embarked or loaded in Malaysia into ships owned or chartered by the operator, except sums so receivable in respect of passengers or cargo:

- Brought to Malaysia, whether by the operator or otherwise, solely for transfer:
  - From one ship or aircraft to another
  - From a ship to an aircraft
  - From an aircraft to a ship
- So embarked or loaded into such a ship if the call of that ship at a port in Malaysia for that embarkation or loading is a “casual call” (usually where there have been or will be no further calls within a 24-month period before or after the casual call)

Unless an “acceptable certificate” is provided to the Inland Revenue Board (IRB), a nonresident shipping company’s statutory taxable income for a particular year will be deemed to be 5% of the gross income derived from Malaysia (as previously defined) for the relevant period. Such statutory taxable income (i.e., 5% of the gross income derived from Malaysia) will be subject to tax at prevailing Malaysian corporate income tax rates. Where within three years (or any such further period as may be allowed by the IRB) after the commencement of a particular year the shipping company produces an acceptable certificate to the IRB, then the Malaysian tax liability or tax loss for that year will be computed based on a proportion of the world income or world loss as reflected in the acceptable certificate. An acceptable certificate is a certificate issued by a foreign tax authority and produced to the IRB, in which the amounts specified have been computed by methods not substantially different from those provided for in Malaysian tax legislation for the computation of analogous figures for a similar business carried on by a resident.

1.1.3 Labuan shipping companies

A shipping company can also be set up in Malaysia’s international banking and financial center of Labuan. Labuan is part of Malaysia but has an independent regulatory climate and also provides for a preferential tax regime for Labuan entities carrying on a “Labuan business activity.”

Where a Labuan shipping company carries on a Labuan business activity, it will be taxed under the Labuan tax regime. The Labuan tax regime is set out in the Labuan Business Activity Tax Act 1990 (LBATA). Under the LBATA, a Labuan entity carrying on a Labuan business activity is subject to tax at preferential rates for such activities. “Labuan business activity” means a “Labuan trading” or a “Labuan non-trading activity” carried on, in, from or through Labuan in a currency other than the Malaysian currency by a Labuan entity.

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1 Both Labuan “trading” and “non-trading activities” are further defined in the LBATA.
1.2 Tax facilities for seafarers

1.2.1 Basis of taxation
Malaysia adopts a territorial basis of taxation. As such, any income accruing in or derived from Malaysia or received in Malaysia from outside Malaysia will be subject to Malaysian tax for each year of assessment.

1.2.2 Derivation of employment income
Under the MITA, a seafarer’s gross income, gains or profits, from employment shall be deemed to be derived from Malaysia:
• For any period during which employment is exercised in Malaysia
• For any period of leave attributable to the exercise of employment in Malaysia
• For any period during which the employee performs outside Malaysia duties incidental to the exercise of employment in Malaysia
• For any period during which employment is exercised aboard a ship or aircraft used in a business operated by a person who is resident in Malaysia for the basis year for a year of assessment and within that basis year that period or part of that period falls

1.2.3 Employer’s income tax obligations
An employer who is employing individuals who are carrying on employment in Malaysia will have to comply with the following obligations for all the seafarers who are deemed to be deriving income from Malaysia:
• Notification of a new employee to the tax authority
• Furnishing a return of remuneration (Form E) to the tax authority and issuance of a statement of remuneration from employment (Form EA) to each employee
• Monthly tax withholding under the monthly tax deduction (MTD) scheme*
• Notification of cessation of employment for any employee to the tax authority

*Depending on their level of income, persons exercising employment in Malaysia, including seafarers, may be subject to MTD. Under the MTD scheme, part of a seafarer’s monthly remuneration is deducted and remitted to the tax authority by the employer (within 15 days after the close of each month) as an advance tax toward the settlement of his or her annual tax liability. The amounts deducted are based on a formula prepared by the tax authority, which takes into account the amounts earned by the relevant resident individual and relevant personal deductions. The amount to be deducted from an employee who is not resident or not known to be resident in Malaysia shall be at the rate of 25% for the 2015 year of assessment and 28% for the 2016 year of assessment until further notice.

The income of an individual employed on board a ship used in a business operated by a Malaysian tax-resident company that is a registered owner of a ship under the Merchant Shipping Ordinance 1952 (MSO) is exempt from Malaysian tax. In this context, “ship” means a seagoing ship registered as such under the MSO other than a ferry, barge, tugboat, supply vessel, crew boat, lighter, dredger, fishing boat or other similar vessel.

1.3 Tax treaties and place of effective management
Malaysia has a well-established tax treaty network, and the Malaysian government is constantly looking to further improve its tax treaty network. Malaysia’s shipping and air transport treaty network is particularly strong; for example, Malaysia does not have a comprehensive income tax treaty with the US, but it has concluded a limited treaty with the US specifically covering shipping and air transport operations.

The wording of the shipping and air transport article in Malaysia’s treaties varies. Therefore it is important for
each treaty to be reviewed in detail before it is relied upon.

Overall, it should be noted that there is a lack of official guidance (e.g., public rulings) in Malaysia on tax treaty interpretation — consequently, each case must be evaluated on its own facts. Labuan companies, in particular those that enjoy the preferential LBATA tax regime, have been specifically excluded from certain tax treaties concluded by Malaysia.

1.4 Freight taxes

Malaysia does not have a freight tax regime. In practice, some shipping companies have been known to refer to the income tax imposed on nonresident shipping operators (as described in Section 1.1) as a “freight tax,” although technically this tax is an income tax imposed under the income tax laws of Malaysia.

1.5 Special vessel registration benefits for the shipowner

In certain cases, the registration of a ship in Malaysia by a Malaysian tax resident can provide tax exemptions. Pursuant to Section 54A of the MITA, the statutory income of a Malaysian resident company would enjoy a tax exemption if it carries on the business of:

1. Transporting passengers or cargo by sea on a Malaysian ship
2. Letting out on charter a Malaysian ship owned by the company on a voyage or time-charter basis

For this purpose, a Malaysian ship is defined as a seagoing ship registered as such under the MSO, other than a ferry, barge, tugboat, supply vessel, crew boat, lighter, dredger, fishing boat or other similar vessel.

Where the conditions in Section 54A are met, effective from the year of assessment 2021, the statutory shipping income of the company from the Malaysian ship(s) would qualify for a 70% tax exemption. Prior to the year of assessment 2021, the statutory income from Malaysian ships should be fully exempt from Malaysian corporate income tax (please see discussion below). Non-shipping income (such as interest income) and income from non-Malaysian ships will continue to be fully subject to corporate income tax at prevailing rates.

Changes in the tax exemption regime for income from Malaysian ships

Prior to the 2012 year of assessment, the MITA provided that the statutory income of a Malaysian resident company earned from Malaysian ships under conditions 1) and 2) above would be fully exempt from tax. The tax law was then changed to reduce the tax exemption to 70%. The change in law was effected through the Finance Act 2012, which was published on 9 February 2012. Based on the Finance Act 2012, the change in law was to have taken effect from the 2012 year of assessment. However, due to intense lobbying from the shipping industry, the Malaysian government had agreed to extend the full tax exemption to the 2012 and 2013 years of assessment. This extension was legislated via the Income Tax (Exemption) (No. 2) Order 2012. The Ministry of Finance via its letter dated 29 October 2013 to the Malaysian Shipowners’ Association (MASA) then further extended the full tax exemption for a further two years, i.e., to the 2014 and 2015 years of assessment. The relevant statutory order to formalize this has yet to be issued.

MASA continued to lobby and in response to the further lobbying efforts, the Ministry of Finance via its letter dated 27 November 2015 to MASA extended the full tax exemption for a further five years, from the 2016 to 2020 years of assessment. The tax exemption will need to be formalized by way of a statutory order. In addition, the Ministry of Finance has rejected MASA's request to expand the definition of a “Malaysian ship” to include tugboats, barges and other similar vessels.

The changes made to Section 54A via the Finance Act 2012 are generally as follows:

- The income tax exemption is reduced from 100% to 70% of statutory income.
- The balance of 30% of statutory income is deemed to be total income, which is subject to tax.
- The income derived from each Malaysian ship shall be treated as income from a separate and distinct business source – capital allowances (i.e., tax depreciation) and tax losses from one ship cannot be used to offset profits from another ship.
- Any unabsorbed capital allowances of a Malaysian ship shall be carried forward to subsequent years of
assessment to offset the adjusted income of the same ship only and not other ships.

- Any current year adjusted loss in respect of a Malaysian ship shall not be available as a deduction against any other income (for example, interest income or income from non-Malaysian ships).
- Any unabsorbed losses from a Malaysian ship for a year of assessment shall be carried forward to subsequent years of assessment to offset exempt income from that ship only. Any losses from a Malaysian ship cannot be used against future taxable income even from the same ship, essentially resulting in the tax benefit of the loss being disregarded.

Certain transitional rules were also prescribed.

With this change in law, it appears that even where a Malaysian shipping company only owns Malaysian ships, effective from the 2021 year of assessment, the company would be in a tax-payable position as long as one of its ships is profitable.

1.6 **Tonnage tax**

Malaysia does not have a tonnage tax regime in place.

1.7 **Goods and services tax**

Goods and services tax (GST) was introduced in Malaysia effective 1 April 2015. The GST system in Malaysia operates similarly to the value-added tax (VAT), with an input-output mechanism in place. Any person making taxable supplies (i.e., standard rated and/or zero-rated supplies) in Malaysia and whose turnover of taxable supplies exceeds (under the historical method) or is expected to exceed (under the future method) MYR500,000 (approximately €110,000) over 12 months will be required to register for GST. The standard rate of GST in Malaysia is 6%.

Transport services meeting any of the following conditions are zero-rated:

- From a place outside Malaysia to another place outside Malaysia
- From the last exit point in Malaysia to any place in another country
- From a place outside Malaysia to the first entry point in Malaysia

Various other services in relation to the shipping industry can also be zero-rated, subject to conditions. A GST-registered person who provides zero-rated supplies and charges GST at 0% on such supplies is able to fully recover the input tax credits relating to the provision of such zero-rated supplies. Special GST rules may apply in relation to activities undertaken in or from “designated areas,” i.e., the islands of Labuan, Langkawi or Tioman.

1.8 **Major changes to tax law anticipated in the near future**

At this time, no relevant major changes are anticipated in the near future. However, it is not always possible to anticipate future changes to the tax law.

2. **Human capital**

2.1 **Formalities and regulations for employing personnel**

The domestic legislation governing the recruitment of seafarers is contained within the Maritime Labour Convention, 2006, which came into force on 20 August 2013.

From a tax perspective, where an employer is employing individuals who are carrying on employment in Malaysia, there are various tax registration and administration requirements that need to be complied with, including the MTD scheme discussed in Section 1.2.

2.2 **National labor law**

The seafarers serving on board Malaysian ships are governed by the MSO.

Malaysian labor law is governed by the Employment Act 1955 for employment in Peninsular Malaysia and by the Labour Ordinance, Sabah and Sarawak for employment in Sabah and Sarawak (East Malaysia). These
labor laws apply to a person who is engaged in any capacity on any vessel registered in Malaysia and who:
• Is not an officer certified under the Merchant Shipping Acts of the UK as amended from time to time
• Is not the holder of a local certificate as defined in Part VII of the MSO
• Has not entered into an agreement under Part III of the MSO

2.3 **Collective labor law**
Collective agreements are governed by the Industrial Relations Act 1967 and the Trade Unions Act 1959.

2.4 **Treaties relating to social security contributions**
In Malaysia, there are two types of social security schemes to comply with – the Social Security Organization (SOCSO) and the Employees Provident Fund (EPF). All Malaysian employers have a statutory obligation to be registered with the SOCSO and EPF Board and ensure that monthly contributions are made to the above organizations for all relevant employees.

Malaysian citizens and permanent residents employed under a contract of service or apprenticeship of a Malaysian company and earning a monthly wage of MYR3,000 (approximately €670) or less must compulsorily register and contribute to the SOCSO regardless of employment status, i.e., whether it is permanent, temporary or casual in nature. Similar to SOCSO contributions, EPF contributions are only applicable to Malaysian citizens and permanent residents. However, non-Malaysian citizens may elect to contribute to EPF to take advantage of the available tax relief. The statutory contribution rate for EPF is 23% or 24% of the monthly wages. The employer pays EPF at the rate of 12% if the employee's monthly wages are above MYR5,000 per month or 13% if the employee's monthly wages are below MYR5,000 per month, while employees contribute at a rate of 11% of monthly wages. The employees’ contribution rate has been temporarily reduced to 8% for 22 months (beginning March 2016 to December 2017), though employees can elect to contribute a higher rate.

2.5 **Manning advantages or disadvantages of flying the Malaysian flag**
The income of an individual from being employed on board a ship used in a business operated by a Malaysian tax-resident company that is a registered owner of a ship under the MSO is exempt from Malaysian tax. (See section 1.2 for the definition of “ship” in this context.) Similar to the above, income earned from the performance of overseas duties (working on board a ship located outside Malaysia) will be deemed derived from Malaysia if the duties are incidental to the main employment in Malaysia. It is important to note that income derived by the aforementioned shipping crew can be potentially taxed in Malaysia.

3. **Corporate structure**

3.1 **Most commonly used legal structure for shipping activities**
The most commonly used legal structure for shipping companies is a private limited liability company (Sendirian Berhad [Sdn. Bhd.], where the company is incorporated under the Malaysian Companies Act 1965).

The tax rates imposed on shipping companies operating in Malaysia are discussed in section 1.1.

3.2 **Taxation of profit distribution**
Malaysia does not impose any form of dividend withholding tax. Further, with effect from 1 January 2008, Malaysia has adopted what is known as the “single tier” system of corporate taxation. Under the single tier system, there are no tax costs or impediments to a company paying dividends. Note that from the corporate law and accounting perspectives, dividends may only be paid out of profits.
4. Grants and incentives

4.1 Specific and/or general subsidies available to shipping companies
See section 1.5 for information on the tax exemption that is available to Malaysian-resident shipping companies operating Malaysian ships.

4.2 Investment incentives for shipping companies and the shipbuilding industry
In Malaysia, tax incentives are offered to entities involved in “promoted activities.” Shipbuilding was previously listed as a promoted activity where the shipbuilding operations were carried on in certain designated “promoted areas” in Malaysia, but it is no longer listed as a promoted activity. Incentives available for promoted activities include Pioneer Status, which is a partial or full tax exemption, and Investment Tax Allowances, which represents additional tax depreciation claims on qualifying assets.

Malaysia has also introduced the concept of a “prepackaged” tax incentive – under this prepackaged system, an investor can make a request for special incentives that are out of the ordinary (for example, a longer-than-usual Pioneer Status period). Such requests are evaluated by the authorities on a case-by-case basis. Some of the factors considered by the authorities when evaluating such requests are the level of capital investment in Malaysia, employment opportunities that will be created in Malaysia, knowledge transfer to Malaysia and the multiplier effect to the economy.

4.3 Special incentives for environmental awareness
Malaysia has introduced certain tax incentives relating to environmental awareness, but these incentives generally apply to all qualifying persons and are not limited to the shipping industry.

4.4 Advantages or disadvantages of flying the Malaysian flag
See the discussion above on tax exemption available to Malaysian resident shipping companies operating Malaysian ships.

4.5 Major changes in shipping subsidy legislation anticipated in the near future
No major changes are anticipated. However, it is not always possible to anticipate future changes to the law.

5. General information

5.1 Infrastructure

5.1.1 Major ports
The major ports are:
- Bintulu Port (www.bpa.gov.my)
- Northport, Port Klang (www.pka.gov.my)
- Port of Tanjung Pelepas (www.ptp.com.my)
- Westports, Port Klang (www.pka.gov.my)
- Penang Port (www.penangport.gov.my)

5.1.2 Port facilities
The following facilities are available:
- Maintenance and repair
- Docking
- Storage
- Cranes for every size of vessel

5.1.3 Support services for the shipping industry
The following support services for the shipping industry are available:
5.1.4 Maritime education
Maritime education is available at various institutions, including the following:

- Maritime Academy of Malaysia (ALAM) (www.alam.edu.my)
- Maritime Transport Training Institute, Marine Department Malaysia (www.marine.gov.my)
- Politeknik Ungku Omar (www.puo.edu.my)
- Sarawak Maritime Academy (www.sarawakmaritimeacademy.com)

5.2. Safety and environmental issues
5.2.1 Implementation of the International Safety Management Code
Shipping companies are required to comply with the requirements of the International Safety Management (ISM) Code. The Malaysian government issues two documents for shipping companies that comply with the ISM Code: the document of compliance (DOC) and the safety management certificate (SMC). These documents are issued after the shipping companies pass an audit performed by the appropriate authority.

5.2.2 Safety rules regarding manning
Malaysia has relatively strict safety rules regarding manning. Most of the maritime legislation (particularly on safety issues) is set out in the MSO. The Board of the Marine Department has authorized internationally recognized classification societies to conduct audit and certification of Malaysian-registered vessels and managing companies for compliance with the code.

In addition, Malaysia is in compliance with the International Convention on the Standards of Training, Certification & Watchkeeping for Seafarers (STCW) 1978.

5.2.3 Special regulations on safety and the environment
Malaysia is a party to all major international conventions on safety and pollution prevention.

5.3 Registration
5.3.1 Registration requirements
The registration of ships is governed by the MSO. Under Section 11 of the MSO, a ship is registered as a Malaysian ship if it is owned by a Malaysian citizen or a corporation that meets the following conditions:

1. It is incorporated in Malaysia.
2. The principal office of the corporation is in Malaysia.
3. Management of the corporation is mainly in Malaysia.
4. A majority (normally more than 51%) of the directors and shareholding (including voting shares) of the corporation is held by Malaysians, free from any trust or obligation.

Notwithstanding MSO Section 11, a Malaysian ship can be registered under the Malaysian International Shipping Registry (i.e., the Labuan registry) only if the majority of the shares (including voting shares) are not held by Malaysian citizens.

5.3.2 Ship registration procedure
The ports of registry in Malaysia are Kuching, Kota Kinabalu, Labuan, Penang and Port Klang. Before a ship can be registered, the ship’s name has to be approved. The application for ship name can be made at any port of registry office. Upon the approval of the name, application to register a ship can be made at any port of registry office.

For further details, see the Marine Department Malaysia website: www.marine.gov.my.
5.3.3 Parallel registration

Parallel registration (both traditional and international ship registry) is not permitted.

5.3.4 Requirements for officers and crew serving on vessels

There is no restriction on the nationality of the crew to be employed on board Malaysian ships. Foreign seafarers may sail in any capacity on Malaysian ships as long as they meet the standards laid down in the STCW 1978 regulations as amended.

In accordance with the provisions of Regulation I/10 of STCW 95, Malaysia has signed Memoranda of Undertaking to recognize certificates of competency (COCs) with the following jurisdictions: Arab Republic of Egypt, Australia, Bangladesh, Belgium, Belize, Brazil, Brunei Darussalam, China, Croatia, Finland, Germany, Ghana, Honduras, Hong Kong, India, Indonesia, Ireland, Japan, Korea (South), Latvia, Liberia, Luxembourg, Maldives, Myanmar, New Zealand, Norway, Pakistan, Panama, Papua New Guinea, Poland, Republic of Cyprus, Republic of Philippines, Russian Federation, Romania, St. Vincent and the Grenadines, Singapore, South Africa, Sri Lanka, Thailand, Ukraine, United Kingdom, Vanuatu and Vietnam.

(Note: the list of countries that have signed a Memorandum of Undertaking with Malaysia will be updated from time to time on www.marine.gov.my.)

Foreign officers or engineers in possession of valid foreign COCs from the abovementioned countries are allowed to serve on Malaysian ships as long as their certificates are appropriate to the capacity in which they are employed. No prior approval is required, but owners of vessels are required to apply for a seafarer identity and certificate of recognition (COR) to allow holders of the foreign certificates to serve on Malaysian ships.

The validity of a COR shall not be longer than one year. If the validity of the COC is less than one year, the validity of the COR will expire on the same day the COC expires. When applying for a COR, the validity of the COC must not be less than six months for the application to be accepted and processed.

5.3.5 International conventions regarding registration

Malaysia follows the best practice of international ship registration, i.e., the United Nations Convention on the Law of the Sea (UNCLOS), 1982, and the United Nations Convention on Conditions for Registration of Ships and Her Majesty's Stationery Office (HMSO) UK Act. In addition, Malaysia is also a party to all major international conventions on safety, pollution prevention and liability and compensation (see Section 5.2.3).

5.3.6 Special requirements and rules relating to registration

For further information on ship mortgages, survey requirements and costs, please refer to www.marine.gov.my/jlmeng/index.asp.

5.4 General comments

For further information, please refer to:

- Marine Department Malaysia (www.marine.gov.my)
- Malaysian Shipowners’ Association (www.masa.org.my)
1. **Tax**

1.1 **Tax facilities for shipping companies**

No income tax is charged on income derived from shipping activities by a licensed shipping organization provided that all registration fees and tonnage taxes have been paid and that, in the year to which the exemption applies, separate accounts were kept, clearly distinguishing the payments and receipts by the shipping organization with respect to shipping activities.

Similarly, no income tax is charged on any gains arising from the liquidation, redemption, cancellation or any other disposal of shares, securities or any other interest. This includes goodwill held in any licensed shipping organization with restricted objects owning, operating, administering or managing a tonnage tax ship while it was a tonnage tax ship.

Shipping activity is defined as 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 engaged in all or any of the above activities or as otherwise may be prescribed.

Any income derived by a ship manager from ship management activities is deemed to be income derived from shipping activities and is exempt from income tax under the Income Tax Act, provided that:

- The company keeps proper accounts relating to its shipping activities.
- The ship manager has paid to the Registrar-General an annual tonnage tax to be determined as follows:
  1. For any tonnage tax ship registered under Parts II or IIA of the Merchant Shipping Act (the Act), an amount equivalent to 25% of the annual tonnage tax payable for the particular ship on the basis of the rates stipulated in the First Schedule to the Act
  2. For any other ship not referred to in paragraph 1. above, an amount equal to 25% of the annual tonnage tax calculated by reference to the rates stipulated in the First Schedule to the Act that would have been payable had the ship been registered under Parts II or IIA of the Act
- At least two-thirds of the tonnage of the ships to which the ship manager provides ship management activities is managed from the territory of the European Community (EC).
- The tonnage of the ships for which the ship manager provides ship management activities meets any of the following conditions:
  1. At least 60% of said tonnage is registered under an EC flag.
  2. The percentage of said tonnage that is EC flagged immediately after the ship manager begins to operate an additional ship is not less than the percentage of the ship manager’s tonnage that was EC flagged on the later of 11 June 2009 or one year from the day on which the ship manager began to operate.
  3. The percentage of said tonnage that is EC flagged has not decreased over a period of three years or such lesser period in which the ship manager was in existence if said ship manager was in existence for a period of less than three years.

If the requirements of paragraphs 2. or 3. are not fulfilled, the provisions of the particular paragraph shall still be deemed to be satisfied where it is proven to the satisfaction of the Registrar-General that a commitment exists to increasing or at least maintaining under the flag of one of the European Union (EU) Member States the share of tonnage under such flags in respect of which ship management activities were being provided on the later of 11 June 2009 or one year from the day on which the ship manager began to operate.

Income derived by a licensed shipping organization from the sale or transfer of a tonnage tax ship or from the disposal of the right to a ship that, when delivered or completed, would qualify as a tonnage tax ship is exempt from tax.

Profits derived from financing the operations of licensed shipping organizations or financing any tonnage tax
ship are also exempt from income tax. The law further adds that applying such exemption to persons resident in Malta shall be restricted to such persons who are licensed bank, credit or financial institutions under the provisions of applicable law.

An organization qualifies as a shipping organization if it engages in one or more specified activities and if it obtains a license from the Registrar-General to enable it to carry on such activities. The following are the specified activities:

- The ownership, operation (under charter or otherwise), administration and management of a ship or ships registered as a Maltese ship under the Merchant Shipping Act and the carrying on of related financial, security and commercial activities

- The ownership, operation (under charter or otherwise), administration and management of a ship or ships registered under the flag of another state and the carrying on of related financial, security and commercial activities

- The holding of shares or other equity interests in Maltese or foreign entities that are established for any of the purposes stated in the law and the carrying on of related financial, security and commercial activities

- The raising of capital through loans, the issuance of guarantees or the issuance of securities by a company if the purpose of such activity is to achieve the objects of the shipping organization itself or for other shipping organizations within the same group

- The carrying on of such other activities within the maritime sector that are prescribed in regulations

A shipping organization may be established as a limited liability company (public or private), a foreign corporate body that has established a place of business in Malta or another type of entity specified in the law.

No duty is payable in respect of any instrument connected with or involving:

- The registration of a tonnage tax ship under Part II and Part IIA of the Merchant Shipping Act and other registrations relating to a tonnage tax ship made under said parts

- The issue or allotment of any security or interest of a licensed shipping organization or the purchase, transfer, assignment or negotiation of any security or interest of any licensed shipping organization or other company as above

- The sale or other transfer of a tonnage tax ship or any share thereof

- The registration of any mortgage or other charge over or in relation to any ship or licensed shipping organization, any transfer or discharge thereof, any receipt relative thereto and any assignments granted in connection therewith

- The assignment of any rights and interests or the assumption of obligations in respect of any ship or share thereof

Ships that are registered in Malta are bound to pay registration fees and tonnage taxes as per the extract from the first schedule of the Merchant Shipping Act reproduced below:

- The fee on registration and the annual fee for all ships shall be as follows:

<table>
<thead>
<tr>
<th>Ship</th>
<th>Fee on registration</th>
<th>Annual fee</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Basic fee</td>
<td>Tonnage tax</td>
</tr>
<tr>
<td>(i) Ships less than 24 meters in length overall</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Fishing vessels of category A, B and C</td>
<td>€70</td>
<td>€25</td>
</tr>
<tr>
<td>b. Commercial yachts</td>
<td>€115</td>
<td>€150</td>
</tr>
<tr>
<td>c. Pleasure yachts less than 50 gross tonnage</td>
<td>€115</td>
<td>€25</td>
</tr>
<tr>
<td>All other ships less than 24 meters in length overall</td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. Less than 50 gross tonnage</td>
<td>€115</td>
<td>€25</td>
</tr>
<tr>
<td>e. Of 50 gross tonnage or more</td>
<td></td>
<td>€150</td>
</tr>
</tbody>
</table>
Subject to the provisions of Article 7(4) of the Merchant Shipping Act, when there is a change in the particulars or category of a registered ship and the new applicable fee payable on registration or annually is higher than that already payable, the provisions of Article 19(7) of the Act for laid-up vessels shall apply mutatis mutandis.

The rates per net tonnage (NT) payable on registration and annual tonnage tax when referred to in Section A:

### Section A

<table>
<thead>
<tr>
<th>Ship</th>
<th>Fee on registration</th>
<th>Annual tonnage tax</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Basic fee</td>
<td>Tonnage tax</td>
</tr>
<tr>
<td>Ships of 24 meters in length overall or more:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ii) Pleasure yachts</td>
<td>25 cents per net tonnage subject to minimum of € 187.50</td>
<td>€ 255</td>
</tr>
<tr>
<td>(iii) Commercial yachts which do not fall under category (iv)</td>
<td>Rates as appear in Section B</td>
<td>€ 625 for year of registration</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Rates as appear in Section B</td>
</tr>
<tr>
<td></td>
<td></td>
<td>€ 1,095 thereafter</td>
</tr>
<tr>
<td>(iv) Non-propelled barges, bareboat charter registered in a foreign registry, laid up or under construction, excluding ships in category (ii)</td>
<td>Rates as in Section B subject to reduction as in Section C</td>
<td>€ 150</td>
</tr>
<tr>
<td>(v) Commercial vessels and fishing vessels less than 2,500 gross tonnage and do not fall under categories (ii), (iii) and (iv) above</td>
<td>Rates as in Section B subject to reduction as in Section C</td>
<td>€ 255</td>
</tr>
<tr>
<td>(vi) All other ships of 24 meters in length overall or more and do not fall under categories (ii), (iii), (iv) and (v) above</td>
<td>Rates as in Section B subject to reduction as in Section C</td>
<td>€ 370 for year of registration</td>
</tr>
<tr>
<td>Ships less than 300 gross tonnage</td>
<td>Rates as in Section B subject to reduction as in Section C</td>
<td>€ 840 thereafter</td>
</tr>
<tr>
<td>Ships of 300 gross tonnage or more</td>
<td>Rates as in Section B subject to reduction as in Section C</td>
<td>€ 625 for year of registration</td>
</tr>
<tr>
<td></td>
<td></td>
<td>€ 1,095 thereafter</td>
</tr>
</tbody>
</table>

### Section B

<table>
<thead>
<tr>
<th>Ship of net tonnage (NT)</th>
<th>Fee on registration</th>
<th>Annual tonnage tax</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Basic fee</td>
<td>Tonnage tax</td>
</tr>
<tr>
<td>Exceeding</td>
<td>Not exceeding</td>
<td></td>
</tr>
<tr>
<td>0</td>
<td>2,500</td>
<td>€625</td>
</tr>
<tr>
<td>2,500</td>
<td>8,000</td>
<td>€625 plus 25 cents for every NT in excess of 2,500 NT</td>
</tr>
<tr>
<td></td>
<td></td>
<td>€1,000 plus 40 cents for every NT in excess of 2,500 NT</td>
</tr>
<tr>
<td>8,000</td>
<td>10,000</td>
<td>€2,000 plus 7 cents for every NT in excess of 8,000 NT</td>
</tr>
<tr>
<td></td>
<td></td>
<td>€3,200 plus 19 cents for every NT in excess of 8,000 NT</td>
</tr>
<tr>
<td>10,000</td>
<td>15,000</td>
<td>€2,140 plus 7 cents for every NT in excess of 10,000 NT</td>
</tr>
<tr>
<td></td>
<td></td>
<td>€3,580 plus 14 cents for every NT in excess of 10,000 NT</td>
</tr>
</tbody>
</table>
Reduction or increase on the rates per NT on registration and annual tonnage tax, when referred to in section A:

- Section C

<table>
<thead>
<tr>
<th>Age of ship</th>
<th>Reduction of fee on registration %</th>
<th>Reduction or increase on annual tonnage tax %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exceeding</td>
<td>Not exceeding</td>
<td></td>
</tr>
<tr>
<td>Years</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0</td>
<td>5</td>
<td>50</td>
</tr>
<tr>
<td>5</td>
<td>10</td>
<td>-30</td>
</tr>
<tr>
<td>10</td>
<td>15</td>
<td>-15</td>
</tr>
<tr>
<td>15</td>
<td>20</td>
<td>-</td>
</tr>
<tr>
<td>20</td>
<td>25</td>
<td>+10 Subject to minimum increase of € 1,500</td>
</tr>
<tr>
<td>25</td>
<td>30</td>
<td>+25</td>
</tr>
<tr>
<td>Equal to or exceeding 30</td>
<td>-</td>
<td>+50</td>
</tr>
</tbody>
</table>

1.2 Tax facilities for seafarers

Employees who wholly or mainly work outside Malta are generally eligible for favorable tax treatment (15%), but seafarers employed by Maltese companies are not.

1.3 Tax treaties

Malta has one of the most extensive networks of tax treaties. Most Maltese treaties follow the Organisation for Economic Co-operation and Development (OECD) model treaty and include an article on international transport.

Malta has tax treaties with the following jurisdictions: Albania, Australia, Austria, Bahrain, Barbados, Belgium, Bulgaria, Canada, China, Croatia, Cyprus, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Georgia, Germany, Greece, Guernsey, Hong Kong, Hungary, Iceland, India, Ireland, Isle of Man, Israel, Italy, Jersey, Jordan, Korea (South), Kuwait, Latvia, Lebanon, Libya, Liechtenstein, Lithuania, Luxembourg, Malaysia, Mauritius, Moldova, Mexico, Montenegro, Morocco, Netherlands, Norway, Pakistan, Poland, Portugal, Qatar, Romania, Russian Federation, San Marino, Saudi Arabia, Serbia, Singapore, Slovakia, Slovenia, South Africa, Spain, Sweden, Switzerland, Syria, Tunisia, Turkey, United Arab Emirates, United Kingdom, United States of America and Uruguay.

Malta has also signed treaties with Curaçao and Ukraine that have yet to come into force.

Malta has also signed a protocol with Belgium that has yet to come into force.
In addition, Maltese ships calling at US ports benefit from an exemption between Malta and the US, exempting shipping and air operations from income tax. Similarly, Maltese ships trading in Greece benefit from an exemption from taxes on their earnings by way of reciprocity. In addition to the double taxation agreements, Malta has concluded agreements on maritime transport with China, Cyprus, Germany and the Russian Federation, providing various benefits to Maltese-registered ships calling at such ports.

Malta also has a reciprocal fleet agreement with the US on the carriage of empty containers in the US coast-wide trade, exempting ships sailing under the Maltese flag from the fees under the Jones Act.

1.4 Freight taxes
Profits arising from the carriage of passengers, mail, livestock or goods shipped in Malta by ships owned or chartered by nonresidents are deemed to accrue in Malta and are therefore subject to taxation in Malta. This does not apply if the country of citizenship of the shipowner extends a similar exemption to Maltese shipowners. The exemption also applies to goods that are brought to Malta solely for transshipment.

1.5 Special vessel registration benefits for the shipowner
Complete tax exemption is granted to licensed shipping organizations exclusively operating Maltese ships of over 1,000 NT engaged in the international carriage of goods and passengers and other ancillary services, provided that all registration fees and tonnage taxes are paid.

1.6 Changes to tax law anticipated in the near future
On 25 July 2012, the European Commission opened an investigation into the Maltese tonnage tax system.

2. Human capital

2.1 Formalities for hiring personnel
There are no particular formalities with respect to employment of the crew on board. A contract of employment in the form of a crew agreement must be made between the master and seafarers and signed in the presence of a shipping master.

In Maltese ports, the terms of the agreement should preferably be endorsed by a Maltese shipping officer and in foreign ports, by a registrar or Maltese consular officer. An agreement can be made for a single voyage, or if the voyage is less than one year, it may be extended over two or more voyages.

Maltese companies that manage ships from Malta are required to obtain a work permit for their employees working in Malta.

4.2 National labor law
Crew members of Maltese ships are subject to the provisions of the Merchant Shipping Act and ancillary regulations, including the Maritime Labour Convention, 2006 (MLC), which came into force on 20 August 2013.

4.2 Regulations on employing personnel
When employing personnel, the provisions of the law and the regulations concerning the competence of officers and seafarers must be observed.

4.2 Collective labor agreements
Operators of ships sailing under the Maltese flag have concluded collective labor agreements with the Transport and General Workers’ Union, which is the International Transport Workers’ Federation (ITF) affiliate trade union. The Maltese law that regulates employment conditions does not apply to crews on seagoing vessels.

The principal Maltese employment law is the Employment and Industrial Relations Act and ancillary regulations. A contract for an indefinite period of time may be terminated by the employee by giving notice
without giving any reasons and by the employer on grounds of redundancy. Employees whose employment is terminated on grounds of redundancy alone are entitled to re-employment if the post formerly occupied by them becomes available again within a period of one year from the date of termination of employment.

The minimum wage in Malta in effect from 1 January 2016 to 31 December 2016 for persons aged 18 years or over increased to €168.01 per week. In addition, employees are entitled to at least four weeks of leave every year, and the normal working time frame is a 40-hour week.

4.2 Treaties relating to social security contributions
To prevent the double payment of social security contributions, Malta has concluded five social security totalization agreements: Australia, Canada, the Netherlands, New Zealand and United Kingdom.

Furthermore, Malta has a totalization agreement with all EU member states through Regulation (EC) No 883/2004 and Implementing Regulation (EC) No 987/2009, as amended by subsequent regulations.

4.2 Manning issues with flying the Maltese flag
Manning requirements are considered strict and compare well with international standards.

3. Corporate structure

3.1 Most commonly used legal structures for shipping activities
The most commonly used legal structure for the operation of shipping activities is the body corporate (company). Any person, whether Maltese or not, may form a body corporate in Malta under the Companies Act.

3.2 Taxation of profit distribution
Please refer to the subsection titled “Allocation and distribution of profits” in Section B of EY’s Worldwide Corporate Tax Guide.

3.3 Tax refunds
Please refer to the subsection titled “Allocation and distribution of profits” in Section B of EY’s Worldwide Corporate Tax Guide.

4. Grants and incentives

4.1 Specific and/or general subsidies available to shipping companies
There are no subsidies for shipping companies.

4.2 Investment incentives for shipping companies and the shipbuilding industry
The Malta Enterprise Act grants incentives in the form of tax credits and enterprise support for qualifying activities, such as repair, overhaul or maintenance of any water craft not covered by the definition of shipbuilding as provided for in the framework on state aid for shipbuilding as published in the Official Journal C364 of 14 December 2011, p.9-13. Paragraph 12 of the framework provides us with the following definitions:

(a) ‘shipbuilding’ means the building, in the Union, of self-propelled commercial vessels;
(b) ‘self-propelled commercial vessel’ means a vessel that, by means of its permanent propulsion and steering, has all the characteristics of self-navigability on the high seas or on inland waterways and belongs to one of the following categories:
   (i) seagoing vessels of not less than 100 gross tonne and inland waterway vessels of equivalent size used for the transportation of passengers and/or goods;
   (ii) seagoing vessels of not less than 100 gross tonne and inland waterway vessels of equivalent size used
for the performance of a specialized service (for example, dredgers and ice breakers);
(ii) tugs of not less than 365 kW;
(iv) unfinished shells of the vessels referred to in points (i), (ii) and (iii) that are afloat and mobile.”

4.3 **Special incentives for environmental awareness**

There are no specific incentives for environmental awareness.

4.4 **Issues with flying the Maltese flag**

The Maltese flag has been upgraded to the White List of the Paris Memorandum of Understanding (MoU) and Tokyo MoU, thereby lessening the controls on ships flying the Maltese flag. The Maltese flag was also listed on the Low Risk Ship list of the Paris MoU.

There are no issues regarding subsidies and grants connected to flying the Maltese flag.

4.5 **Major changes in shipping subsidy legislation in the near future**

No major changes are expected in the near future.

5. **General information**

5.1 **Infrastructure**

5.1.1 **Major ports**

Malta’s major ports are:
- Port of Marsaxlokk
- Port of Valletta

5.1.2 **Port facilities**

The following facilities are available:
- **Maintenance and repair**: The Maltese companies that offer maintenance and repair facilities are Bezzina Ship Repair Yard Limited, Cassar Ship Repair Limited, Palumbo Malta Shipyard Limited and Manoel Island Yacht Yard.
- **Docking**: The Maltese companies that offer docking facilities are Bezzina Ship Repair Yard Limited, Cassar Ship Repair Limited, Manoel Island Yacht Yard Limited and Valletta Gateway Terminals Limited.
- **Storage**: The Maltese companies that offer storage facilities are Alpha Oil Services & Trading Limited, Malta Freeport Terminals Limited, Oil Tanking Malta Limited, Salvo Grima (Freeport Operations) Limited and Valletta Gateway Terminals Limited.
- **Cranes for every size of vessel**: These are offered by Cassar Ship Repair Limited, Malta Freeport Terminals Limited and Valletta Gateway Terminals Limited.

5.1.3 **Support services for the shipping industry**

The following support services for the shipping industry are readily available:
- Consulting firms specialized in shipping
- Maritime law services
- Insurance brokers for the shipping industry

Although the Maltese banks do not have specialized shipping desks, some Maltese banks are equipped to deal with shipping companies’ requirements.

5.1.4 **Maritime education**

The major maritime educational institutions in Malta are:
- The International Maritime Law Institute
- The Malta College of Arts, Science & Technology Maritime Institute
5.2 Safety and environmental issues

5.2.1 Implementation of the International Safety Management Code on board vessels
Ship operators of ships registered under the Maltese flag, which were required to comply with the International Safety Management (ISM) Code by 1 July 1998, have done so (according to the then Malta Maritime Authority, which is now part of Transport Malta). Most of the ship management companies and some ship operators of Maltese-registered ships have International Organization for Standardization (ISO) 9000 certificates.

5.2.2 Safety rules regarding manning
The safety rules regarding manning may be characterized as quite strict. Most of the maritime legislation (particularly on safety issues) is set out in the Merchant Shipping Act and in regulations made under the Act.

5.2.3 Special regulations on safety and the environment
There are no trading restrictions for the registration of vessels. However, ships 15 years of age and over, but not yet 20 years old, must pass an inspection by an authorized flag state inspector before or within a month of provisional registration; ships 20 years of age or more, but not yet 25 years old, must pass an inspection by an authorized flag state inspector prior to being provisionally registered. Trading ships 25 years of age and over are not registered.

5.3 Registration

5.3.1 Registration requirements
Registering a ship-owning company is an uncomplicated and inexpensive matter and can be effected very quickly.

The following details are required for a company to register:

- Name of the company
- Details of shareholders and directors (name, address, passport number/registration number (in the case of a body corporate))

The minimum share capital is €1,200 (US$1,690), of which 20% must be paid prior to registration. All types of vessels, from pleasure yachts to oil rigs, may be registered, provided that they are wholly owned by Maltese citizens or a Maltese body corporate. However, ships under 6 meters long are not subject to registration under the Merchant Shipping Act. Ships that are registered under the Authority for Transport in Malta Act not exceeding 24 meters in length are exempt from the registry. Consequently, ships not exceeding 24 meters in length do not enjoy the rights and privileges of a Maltese ship and are not recognized as such.

5.3.2 Ship registration procedure
A vessel is first registered provisionally under the Maltese flag for a period of six months (extendible to one year), during which period all documentation must be finalized. The requirements stipulated by Malta: A Guide to Ship Registration, issued by Transport Malta for provisional registration, are:

- An application for registration by the owner or an authorized representative and, where applicable, application for a change in the ship’s name
- Proof that the body of persons can own a Maltese ship
- Appointment of a resident agent where the owners thereof are not Maltese
- Where applicable, a copy of the ship's international tonnage certificate
- A declaration of ownership made before the registrar by the owner or an authorized representative
- Evidence of seaworthiness and, in the case of trading vessels, confirmation of class
- Where applicable, request for the administration to authorize the issuance of the ship's and the company's statutory certificates
- Application for Minimum Safe Manning Certificate, where applicable
- Payment of initial and annual registration fees
• Application for a ship radio station license
The following documents must be submitted during provisional registration:
• A builder’s certificate, if the vessel has not been registered elsewhere; otherwise, a bill of sale or any other document for registry
• A cancellation of registry certificate from the last country of registry, showing the vessel to be free from encumbrances or otherwise
• Where a ship was registered in a country that is a signatory to the International Convention for the Safety of Life at Sea, a copy of the last updated Continuous Synopsis Record issued by the administration where the ship was last documented
• A certificate of survey and a copy of the international tonnage certificate certifying that the vessel has been surveyed in accordance with Maltese regulations
• Evidence that the vessel has been marked in accordance with the law
• At least one crew list

5.3.3 Parallel registration
Maltese law provides for the bareboat charter registration of foreign-registered ships under the Maltese flag. Vessels so registered enjoy the same rights and privileges and have the same obligations as any other ship registered in Malta.

Bareboat charter registration shall apply for the duration of the bareboat charter or until the expiry date of the underlying registration, whichever is shorter, but in no case will it exceed a period of two years. Registration may be extended. For a foreign vessel to be bareboat charter registered with the Maltese registry, the ship must:
• Be bareboat chartered to Maltese citizens or to a Maltese body corporate
• Not be a Maltese ship but must be registered in a compatible registry
• Not have been registered in another bareboat registry

Maltese law also provides for the bareboat charter registration of Maltese ships under a foreign flag as long as the ship is registered as a Maltese ship under the Merchant Shipping Act and the bareboat charter registry where the ship is to be registered is a compatible registry.

5.3.4 Requirements for the officers and crew serving on vessels
Malta has acceded to the International Maritime Organization (IMO) Convention on Standards of Training, Certification and Watchkeeping for Seafarers, 1978 (STCW 1978). Maltese ships are subject to the provisions of the Merchant Shipping Act and ancillary regulations concerning the competence of officers and seafarers. Certificates of competence are issued on examination. Foreign certificates issued under the terms of the STCW 1978 are recognized where they have been granted by examination.

5.3.5 International conventions regarding registration
Malta has adopted practically all major IMO conventions, including the:
• International Convention on Civil Liability for Oil Pollution Damage, 1969 as modified by the Protocol of 1992 (CLC 92)
• International Convention on Tonnage Measurement of Ships, 1969 (Tonnage 69)
• Convention on International Regulations for Preventing Collisions at Sea (COLREG 72)
• International Convention on the Establishment of an International Fund for Compensation for Oil Pollution Damage, 1971 as modified by the Protocol of 1992 (Fund 92)
• Convention on the International Mobile Satellite Organization (INMARSAT)
• International Convention on the Prevention of Marine Pollution by Dumping of Wastes and Other Matter
1972 (London Convention 1972)

- International Convention for the Prevention of Pollution From Ships, 1973 as modified by the Protocol of 1978 (MARPOL 73/78)
- International Convention for the Safety of Life at Sea, 1974, as modified by the Protocols of 1978 and 1988 (SOLAS 74/78/88)
- International Convention on Standards of Training, Certification and Watchkeeping for Seafarers 78 as modified by the Protocol of 1995 and 2010 Manila Amendment (STCW 78/95)
- International Convention on Civil Liability for Bunker Oil Pollution Damage, 2001 (Bunker 01)
- International Convention on the Control of Harmful Anti-Fouling Systems on Ships, 2001 (AFS 01)
- International Convention on Maritime Search and Rescue, 1979 (SAR 1979)
- Convention on Facilitation of International Maritime Traffic, 1965 (FAL 1965)
- International Convention on Oil Pollution Preparedness, Response and Co-operation 1990 (OPRC 90) and the Protocol on Preparedness, Response and Co-operation to Pollution Incidents by Hazardous and Noxious Substances, 2000 (OPRC-HNS Protocol 00)

Malta has also adopted the major International Labour Organization (ILO) conventions, including the:

- Unemployment Indemnity (Shipwreck) Convention, 1920 (No. 8)
- Medical Examination of Young Persons (Sea) Convention, 1921 (No. 16)
- Seamen's Articles of Agreement Convention, 1926 (No. 22)
- Officers' Competency Certificates Convention, 1936 (No. 53)
- Medical Examination (Seafarers) Convention, 1946 (No. 73)
- Certification of Able Seamen Convention, 1946 (No. 74)
- Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87)
- Right to Organise and Collective Bargaining Convention, 1949 (No. 98)
- Seafarers' Identity Documents Convention, 1958 (No. 108)
- Minimum Age Convention, 1973 (No. 138)
- Merchant Shipping (Minimum Standards) Convention, 1976 (No. 147), including Protocol of 1996 to the Merchant Shipping (Minimum Standards) Convention, 1976
- Seafarers' Hours of Work and the Manning of Ships Convention, 1996 (No. 180)

5.3.6 Special requirements and rules relating to registration

Flag state inspections are carried out regularly by inspectors appointed by the Maltese authorities throughout the world. The inspections are in addition to the regular statutory surveys conducted by classification societies and are carried out only on the specific instructions of the directorate. There are no additional charges for these inspections, except when the vessel has to undergo a second or subsequent inspection to ascertain whether reported deficiencies have been corrected and when a vessel is inspected prior to provisional registration.

Regarding mortgages, the registration, transfer and discharge of mortgages may be affected immediately upon presentation of the relevant documents to the registrar of ships.
Tax

1.1 Tax facilities for shipping companies

There is no special tax regime for shipping companies in Mexico. Shipping companies must comply with general tax regulations.

1.1.1 General taxation regime

Under the general taxation regime, shipping companies may be subject to all Mexican taxes including income tax, value-added tax, social contributions, and a variety of port and Custom duties.

Mexican Income Tax Law (MIT Law)

Under MIT Law, persons are liable for tax on their worldwide income when such persons are deemed to be Mexican tax residents. In the case of nonresident persons, they may be liable to income tax when they derive Mexican source income or when having a Permanent Establishment (PE) in Mexico on the allocable portion of income. A PE is required to observe the obligations and formalities established for Mexican corporations.

The law definition of a PE of a nonresident in Mexico is similar, in general terms, to the concept followed by the Organisation for Economic Co-operation and Development (OECD) in the Model Tax Convention. Most double tax conventions signed by Mexico follow the OECD Model Tax Convention, although there are certain treaties that follow the UN Model Tax convention for this concept.

Under the general regime for Mexican corporations, the income tax rate is 30% for 2016. Taxable income is commonly determined on an accrual basis, and taxpayers are allowed to deduct most expenses that are strictly necessary to the business provided that formal statutory requirements are met. In accordance with current tax provisions, the tax depreciation rate applicable to vessels is 6%. However, subject to certain requirements, Mexican corporations may opt once for reducing such rate.

In addition, Mexican entities are obliged to share a portion of their annual profits with their employees. In general terms, the basis for determining the corresponding profit sharing of the year is the taxable income for income tax purposes, without a deduction for the profit sharing and no use of net operating losses. The applicable profit sharing rate is 10%.

On the other hand, MIT Law sets forth specific sourcing rules according to specific items of income (e.g., dividends, interest, royalties and capital gains). Income derived from services is deemed Mexican source income when the services are partially or wholly rendered within Mexico. Subject to proof on the contrary, it is presumed that services are rendered in Mexico when carried on between related parties.

In addition, a withholding of 10% on a gross basis may be imposed on the income from the chartering of boats. Similarly, a withholding of 5% may be imposed on the income derived from the rent of vessels when the renter uses such vessels directly for the transport of goods and personnel under a permit or concession granted by the federal Mexican government for commercial exploitation.

Please note that the aforementioned 5% rate may not be applicable to payments under financial leasing arrangement to payments that qualify as royalties under MIT Law, such as payments connected to the productivity, use or successive usage of the vessel or associated rights.

Value-Added Tax Law (VAT Law)

In the case of indirect taxes, Mexico imposes VAT when a person carries out the following activities within Mexican territory: sale of goods, granting the use of enjoyment of goods or rights, importation of goods or services or rendering of services.

A provision of services triggers Mexican VAT when provided by a Mexican resident. In such a case, Input VAT can be credited by the Mexican resident in the following month.

When services are provided within Mexico by a nonresident, such transaction is deemed as an importation...
of services, which triggers VAT for the recipient of the service. However, the service recipient can self-assess such Input VAT in the same month of the transaction, thus there is no cash flow effect.

The carriage of goods or persons is considered as a provision of services for Mexican VAT purposes. In the case of the international carriage of goods, such is defined as the water, air or road transportation of goods that starts in Mexico and ends out of the country.

International carriage of goods provided by Mexican residents is considered as an export of services and thus subject to 0% VAT rate. Accordingly, the Mexican resident may credit any input VAT in the following month after the transaction and, subject to certain requirements, it may also request a VAT refund.

In mid-2015 tax authorities issued a Temporary Administrative Rule whereby they ruled that Mexican residents can only apply the 0% VAT rate to the consideration charged as a result of the carriage of goods that starts in Mexico and ends abroad, but not to the consideration charged in connection with the portion of the service, if any, that starts abroad and ends in Mexico. In the case of the latter, the service may trigger a 16% rate VAT which, in turn, may imply that Input VAT paid for the necessary cost and expenses to carry out that portion of the service, may not produce a VAT refund.

Many Mexican shipping agents of foreign shipping companies have large amounts of Input VAT refunds that tax authorities have not refunded or are in an impasse based on the above tax authorities’ interpretation.

The above approach is being discussed between the tax authorities and different Mexican shipping chambers. An agreement on this position is expected to be reached by the second quarter of 2016.

Transfer Pricing

Mexican residents are required to support their intercompany transactions (income and deductions) with contemporaneous transfer pricing documentation. The OECD’s Transfer Pricing Guidelines are of obligatory application under the MIT Law.

Base Erosion and Profit Shifting (BEPS) Provisions

As a result of the OECD’s BEPS initiative, Mexico has included certain provisions, in force since 1 January 2015, that limit the deduction of certain payments such as interest, royalties or technical assistance when such payments do not comply with the arm’s length principle, are made to a subsidiary or controlling affiliate, when the payment recipient is regarded as fiscally transparent or when such payment is deemed nonexistent or non-subject to tax in the country of residence of the recipient.

In addition to the above, as of 2015, Mexican taxpayers are required to report “relevant transactions” that include, among others: changes in direct and indirect ownership, payments of interest with maturity longer than a year, mergers, the application of transfer pricing adjustments to the agreed mark up or consideration in intercompany transactions, and shifts to the functions, assets and risks within a group.

As of January 2016, Mexican residents (exceeding certain income threshold) are required to file a local file transfer pricing informative return in addition to the obligation of keeping contemporaneous transfer pricing documentation to support intercompany transactions and a master file transfer pricing informative by the multinational group to which the Mexican company belongs. This informative return was inspired by, but will not necessary be identical to the OECD’s Report for “Action 13. Guidance on the Implementation of Transfer Pricing Documentation and Country-by-Country Reporting”. Taxpayers are also required to file a country-by-country informative return from Mexican multinational holding entities. Please note that Mexican tax authorities have the faculty to request the information related to the master file transfer pricing informative return from any Mexican subsidiary when it cannot be obtained through the exchange of information process.

Failing to file this information returns may result in monetary penalties, cancellation of import permits and being precluded from contract with the Mexican government.

The first filing’s due date has been set for 31 December 2017 for the information corresponding to 2016. Specific rules and guidance on the exact information that will contain such information returns is expected by the second quarter of 2016.
1.2 Tax facilities for seafarers
There are no special tax facilities for seafarers in Mexico.

1.3 Tax treaties and place of effective management
Mexico's criteria to determine tax residence is based on the principle of effective place of management rather than country of incorporation. Mexico has enforced this principle in the treaties it has concluded.

In that regard, Mexico has concluded international treaties with other countries to avoid double taxation. The treaties in force include those with the following jurisdictions:

Australia, Austria, Bahrain, Barbados, Belgium, Brazil, Canada, Chile, China, Colombia, Czech Republic, Denmark, Ecuador, Estonia, Finland, France, Germany, Greece, Hong Kong, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Japan, Korea (South), Kuwait, Latvia, Lithuania, Luxembourg, Malta, Netherlands, New Zealand, Norway, Panama, Peru, Poland, Portugal, Qatar, Romania, Russia, Singapore, Slovak Republic, South Africa, Spain, Sweden, Switzerland, Ukraine, United Kingdom, United Arab Emirates, United States and Uruguay.

Mexico follows the Organisation for Economic Co-operation and Development (OECD) model regarding international traffic, but reserves the right to impose tax on source profits derived from the provision of accommodation.

However, in several tax treaties, the effective place of management rule is in place for purposes of specifying taxing rights of the jurisdiction of residence (effective management) over the jurisdiction of source.

Through the OECD commentaries to the Model Tax Convention, Mexico also reserves the right to tax profits from internal traffic from the carriage of passengers or cargo taken on board at one place in a country for discharge at another place in the same country.

In addition, Mexico has concluded agreements for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income from the operation of ships and aircrafts in international transport with Argentina and with Canada and Hong Kong for air transport. Please note that these treaties only cover MIT but not Mexican VAT.

Mexico has also concluded agreements concerning exchange of information on tax matters with places including Aruba, Bahamas, Belize, Bermuda, British Virgin Islands, Cayman Islands, Cook Islands, Costa Rica, Dominican Republic, Gibraltar, Guernsey, Isle of Man, Jersey, Liechtenstein, Marshall Islands, Netherlands Antilles, Samoa and St. Lucia. Similar treaties with Turks and Caicos Islands and Vanuatu are under negotiation.

1.4 Freight tax
No freight tax applies in Mexico.

1.5 Special vessel registration tax benefits for the shipowner
Only for purposes of Income Tax, when the ship owner is a nonresident, payments made by a Mexican resident on the rent of the vessels may be subject to a lower withholding tax rate (5%) to the extent certain conditions are met (see section 1.1).

1.6 Changes to tax law anticipated in the near future
See section 4.5.

2. Human capital

2.1 Formalities for hiring personnel
Mexican labor law establishes that the workers on any kind of ship or vessel are defined as the captains, deck and engine officers, hostesses and accountants, radio telegraphists, boatswains, dredgers, deckhands and cooks, as well as any other person considered a worker under Mexican maritime laws and regulations and,
in general, all persons performing any kind of job for a shipowner, shipper or freighter related to assembly, shipping or freight.

Work conditions are to be stipulated in writing. Each party (employer and worker) shall keep a copy of such documentation, another copy shall be submitted to the port authority or to the closest Mexican consulate and a fourth copy shall be submitted to the job inspection office of the respective country.

No labor relationship is deemed to exist where stowaways enter into an agreement with the captain of the ship to pay for their fare through personal services, or with Mexican citizens on board who are being repatriated at the request of a consulate.

2.2 National labor law
Mexican labor law applies to all Mexican-flagged vessels.

2.3 Regulations on employing personnel
Mexican labor law establishes generally accepted rules for employees (for example, an eight-hour working day and vacation days).

2.4 Collective labor agreements
There are different unions related to the shipping industry in Mexico for:
- Captains
- Officers and engineers
- Seafarers
- Cooks and stewards
- Stokers
- Other ship occupations
Generally, the terms of such agreements are based on the labor law.

The income tax rate for individuals was increased as of 2014, and depending on the amount of salary, it could be up to 35%. The employee's rate of social security contribution is 2.775% of the comprehensive salary, which is withheld by the employer from wages. The employer's contribution rate is approximately 36.15% depending on the occupational risk premium. The work performed in this type of industry is considered very risky. Therefore, the applicable percentage for occupational risk premium is the highest.

The maximum amount of salary that may be used to compute the Mexican social security contribution equals 25 times the minimum wage in Mexico (approximately 73 MXN per day)
The National Shipping Industry Chamber (CAMEINTRAM) has proposed for these rates to be reduced.

2.5 Treaties relating to social security obligations
Social security agreements have been entered into with Spain and Canada.

2.6 Manning issues with flying the Mexican flag
Under the National Law for Marine Navigation and Commerce (NLMNC), vessels with a Mexican flag must be manned by Mexican seafarers.

3. Corporate structure
Subject to the actual business and operation structure of the shipping entity (chartering of boats, carriage of passengers or goods, to mention a few) shipping companies may perform business activities from its country of residence, incorporate a Mexican subsidiary, trigger a PE in Mexico for its activities in the country or act through a Mexican shipping Agent.

Please note that the NLMNC requires foreign shipping companies engaged in the carriage of goods and rent and chartering of vessels to appoint a Mexican agent to act on its behalf to operate in Mexican ports. Such
Mexican shipping agent is required, among other requisites, to be registered before the Ministry of Transport and Communications.

In addition to the above, it should be noted that for multi-modal shipping services, the Foreign Investments Law (FIL) establishes that the carriage of goods within Mexico through land vehicles (e.g., trucks) is reserved exclusively to Mexican individuals or Mexican corporations with a foreign-investment exclusion clause in their bylaws.

### 3.1 Most commonly used legal structure for shipping activities

The most common legal entity type used is the corporation of variable capital (S.A. de C.V.). The Sociedad de Responsabilidad Limitada (S. de R.L.) is also very common, mostly for subsidiaries of US companies, which may serve as a disregarded entity for US tax purposes.

Another widely used legal structure is the use of an investment promotion corporation (S.A.P.I.). This legal entity type has become very popular in recent years due to its flexibility and corporate governance features, which reflect market practices and common contractual arrangements used by investors. This type of entity was created to give companies the ability to protect their equity and encourage the participation of other shareholders and investors, and thereby achieve economic growth. Regarding the fiscal point of view, in general terms, the entities built under this kind of structure are subject to the same taxes as any corporation.

Under the Mexican Corporations Act, there is currently no minimum amount of capital stock required to incorporate one of the above entities, provided that the amount established by each corporation is stated in its bylaws. Also, the duration of the corporation can be stated as indefinite.

Nevertheless, under the Foreign Investments Law, foreign ownership of Mexican entities is limited to 49% when such entities commercially exploit vessels and are engaged in the business of internal navigation and cabotage, with the exception of tourist cruises, the exploitation of dredge boats and naval artefacts for construction.

Tax treatment for shipping companies is explained in section 1.1.

### 3.2 Taxation of profit distribution

Dividends paid to foreign shareholders or any individuals are subject to withholding tax. A 10% tax is levied as a withholding tax on the shareholder of the distributing company. This withholding tax will be imposed on distributions of dividends paid to Mexican individuals as well as to foreign residents. Dividends between Mexican resident entities are not subject to tax at the shareholder level. Treaty benefits may apply, and depending on the jurisdiction, the withholding tax could be reduced to 0%.

Moreover, if the company paying the dividend does not have sufficient “net after-tax profit account” (CUFIN) to cover the dividend, the dividends are taxed at the corporate level on a grossed-up basis at a rate of 30%.

Income tax paid on distributed profits per the paragraph above may be credited against corporate income tax in the year the dividend is paid and in the following two years.

### 3.3 Chambers and organizations in Mexico

There are currently three main supporting organizations in Mexico for the shipping industry.

The Mexican Association of Shipowners (AMANAC) groups the principal Mexican shipping companies, port terminals, port service providers and integral port administrations. Its main objective is to be an organ of consultation and collaboration with the Mexican government for the execution and design of policies, programs and tools to encourage the growth of the industry.

CAMEINTRAM, on the other hand, aims to serve and protect the common interests of its members when it comes to achieving the strengthening of the Mexican merchant or the specific activity in relation to certain members of the chamber.

The National Shipowners’ Association (ANANAC) was created to represent the shipping agents before the authorities, unions and third parties and, at the same time, contribute to accomplishment of their main
activities. ANANAC also provides specialized services to its members.

4. Grants and incentives

4.1 Specific or general subsidies available to shipping companies
The special excise tax on production and services derived from acquiring maritime fuel can be credited against any federal tax in Mexico. However, in order to apply such credit, certain formal requirements issued by the Mexican Tax Administration Service (SAT) should be fulfilled, for example, acquiring fuel from authorized stations.

4.2 Investment incentives for shipping companies and the shipbuilding industry
There are no investment incentives available.

4.3 Special incentives for environmental awareness
There are no special incentives for environmental awareness available in Mexico for the shipping industry.

4.4 Issues with flying the Mexican flag
There are no issues regarding grants and incentives associated with flying the Mexican flag. Mexican-flagged vessels are allowed to be commercially exploited in Mexico, while foreign vessels can also be used in Mexico, but only when such vessels obtain temporary permits (every three months).

4.5 Major changes in shipping subsidy legislation in the near future
There is great interest in increasing subsidies and grants to companies in the Mexican shipping industry, as well as a push toward the tonnage tax regime to be implemented for most domestic corporations that form part of the shipping industry in Mexico. However, no such plans have yet been implemented.

4.6 Tax incentive on new employees hired
There is no incentive currently available relating to new employees hired.

5. General information

5.1 Infrastructure

5.1.1 Major ports
The major ports are: Altamira, Dos Bocas, Ciudad Del Carmen, Coatzacoalcos, Ensenada, Guaymas, Lázaro Cardenas, Manzanillo, Mazatlán, Progreso, Puerto Chiapas, Puerto Vallarta, Salina Cruz, Tampico, Topolobampo, Tuxpan and Veracruz.

Major seaports: Altamira, Coatzacoalcos, Lázaro Cardenas, Manzanillo and Veracruz

Oil terminals: Cayo Arcas terminal, Dos Bocas terminal

Liquefied Natural Gas (LNG) terminals: Altamira, Ensenada (Costa Azul), Manzanillo

Main cruise ports: Cancun, Cozumel, Ensenada

5.1.2 Port facilities
The port services are classified as:

- Services to ships to carry out their internal navigation operations, such as piloting, towing and anchorage
- Overall services to ships, such as victualing, supplying drinking water, fuel, communication, electricity, garbage or waste collection and disposal of wastewater
- Handling services for the transfer of goods and merchandise, such as loading, unloading, consignment, storage, stowage and hauling within the port
5.1.3 Support services for the shipping industry
The following support services for the shipping industry are available:
- Consulting firms specializing in shipping
- Maritime law services
- Insurance brokers for the shipping industry

5.1.4 Maritime education
A number of programs exist that provide maritime education in schools, such as in Mazatlán, Mexico City, Tampico and Veracruz. Personnel who provide training in maritime education must be registered with the Ministry of Public Education.

5.2 Safety and environmental issues

5.2.1 Implementation of the International Safety Management Code on board vessels
The International Safety Management (ISM) Code has been implemented by some shipping companies in Mexico.

5.2.2 Safety rules regarding manning
The Mexican authorities periodically carry out audits regarding safety rules.

5.2.3 Special regulations on safety and the environment
Mexico is a party to certain international conventions regarding water pollution, including the International Convention for the Prevention of Pollution from Ships (MARPOL).

5.3 Registration

5.3.1 Registration requirements
According to the NLMNC, in order to fly the Mexican flag on a vessel, it is necessary to register the vessel (to obtain a license) before the competent authority at the request of the owner of the vessel. Only Mexican individuals and corporations are entitled to obtain a license for a vessel to fly the Mexican flag.

The certificate of the license should contain, among other items, the name of the ship, the license number, the port and the name of the owner.

5.3.2 Ship registration procedure
It is necessary to file a request with the National Maritime Public Registry, which will register the vessel in a special section of the Registry.

To obtain the ship registration, the request must include:
- Name and domicile of the person who makes the request
- The original documentation or a certified copy of the deed of incorporation, power of attorney for the legal representative, an invoice for the purchase of the property and a safety certificate for navigation
- The name of the ship
- A copy of the documentation in evidence of payment of the legal rights
- A sworn statement that the applicant is Mexican

5.3.3 Parallel registration
Parallel registration is not possible in Mexico.

5.3.4 Requirements for the officers and crew serving on vessels
The officers and crew serving on vessels registered in Mexico must be of Mexican nationality, should not obtain another nationality and should be able to exercise their civil rights. They also have to prove their practical and technical capabilities according to the Convention on Standards of Training, Certification & Watchkeeping (STCW).
5.3.5 **International conventions regarding registration**
There are certain international conventions with respect to the license and the registry of the vessel. Information on these can be found at the CAMEINTRAM website, www.cameintram.org.

5.3.6 **Special requirements and rules relating to registration**
Duties have to be paid to register the ship.

5.4 **Other comments**
Fees, taxes and social security requirements be considered somewhat burdensome in Mexico, which mostly affects the domestic industry in relation to foreign competitors. Furthermore, there have been comments that the Mexican government has not granted enough tax incentives in order to reduce the aforementioned charges and to encourage the development of the national industry. Nevertheless, it is believed that the shipping industry in Mexico has grown significantly over the last few years.
The Netherlands

1. Tax

1.1 Tax facilities for shipping companies

The following tax facilities are available to shipping companies:

- Tonnage-based taxation
- Accelerated depreciation
- Regressive depreciation
- Investment deduction
- Zero rating for value-added tax (VAT) purposes
- Recovery of Dutch VAT incurred on costs
- Wage cost deduction

1.1.1 Corporate income tax – tonnage-based taxation

1.1.1.1 Introduction

As of 1996, the Netherlands has incorporated a special tax facility in its tax laws for shipping enterprises. This regime provides for the calculation of taxable profits of shipping enterprises engaged in seagoing shipping business on the basis of the net registered tonnage of their vessels, instead of taxation on their actual operating results. This tonnage-based taxation is optional and can significantly reduce the effective tax burden of these companies.

1.1.1.2 Conditions for applying the calculation of taxable profit based on tonnage

To apply the tonnage-based taxation, a shipping company should meet the following conditions:

- The shipping enterprise is liable for Dutch income tax or corporate income tax (CIT).
- The shipping enterprise operates its own vessels for any of the following:
  - The international transportation of people or goods overseas
  - Transporting people or goods overseas for the purpose of the exploration or exploitation of natural resources at sea
  - Exploring the sea bed
  - Cable-laying and pipe-laying activities at the sea bed
  - Tackle and lifting activities at sea
  - Dredging services at sea
  - Towing and support services at sea

“Own vessels” include seagoing vessels of which the beneficial ownership (or co-ownership) is in the hands of the shipping enterprise and seagoing vessels that, though not owned or co-owned by the shipping enterprise, have been chartered bare from a third party (bareboat charter in). Seagoing vessels owned by the shipping enterprise but chartered bare to a third party (bareboat charter out) do not qualify as own vessels.

The shipping enterprise is engaged in the exploitation of these own vessels. “Operation” is understood to mean that the shipping enterprise takes care of at least 30% of the management of own vessels.

The tonnage tax regime may also apply if a shipping enterprise does not own a vessel but performs the entire crew and technical management of a vessel for the owner.

The vessels fly a European Union (EU) or a European Economic Area (EEA) flag (Iceland, Liechtenstein and Norway). This is only required for own vessels (and, therefore, for bareboat chartered in vessels as well).

There are several exemptions to the flag requirement available. One is at the national level: if the percentage of owned, tonnage-taxed vessels flying an EU or EEA flag for the Netherlands as a whole has not decreased
as compared to the preceding period, then the flag requirement does not apply. This exemption, however, does not apply for 2016. This means that in 2016 with respect to vessels that are newly added to the fleet, the shipping company may be eligible for the Dutch tonnage tax regime provided the vessel flies an EU or EEA flag (unless one of the other exemptions to the flag requirement apply).

Profits earned by vessels engaged in dredging services at sea come within the scope of the tonnage-based taxation, provided these activities are predominantly (i.e., at least 50%) executed at sea (i.e., the transport part of the dredging activities may qualify for the tonnage tax regime). Hence, dredging vessels mainly used in inland waterways and ports do not qualify for tonnage-based taxation. No flag requirement exemption is applicable for dredging vessels (hence, it is always mandatory to fly an EU or EEA flag).

Profits earned by vessels engaged in towing and support services at sea to qualifying seagoing vessels also come within the scope of the tonnage-based profit calculation. No flag requirement exemption is applicable for vessels engaged in towing and support activities (hence, it is always mandatory to fly an EU or EEA flag).

Profits earned on activities directly related to the qualifying operation of seagoing vessels, such as shipbroking, stevedoring and comparable activities, also come within the scope of the tonnage-based profit calculation.

### 1.1.1.3 Election for the tonnage-based profit calculation

In case the aforementioned conditions are satisfied, a shipping company can opt for tonnage-based taxation. A shipping enterprise qualifying for the tonnage-based taxation should make the election in the first year in which the shipping enterprise earns taxable profit from shipping operations (for example, a newly incorporated company engaged in shipping). The ruling, which may be appealed, is issued by the tax inspectors concerned. The election then, in principle, applies for 10 years, after which it can be reversed (back to the ordinary tax system) or continued for another 10 years. In the year of the election, the difference between the book value and the fair market value of the assets relating to the shipping activities (e.g., any hidden reserves on the vessels) is determined and set as a tax-claimed reserve for the 10-year period. If the shipping enterprise fails to comply with the conditions for tonnage-based taxation within the 10-year period, this tax-claimed reserve must be included in its taxable base (at the general tax rate for the year in question). If, after the 10-year period, the shipping enterprise no longer complies with the conditions, the tax-claimed reserve will be waived without any taxation.

### 1.1.1.4 Calculation of the taxable tonnage-based profit

Taxable profit based on tonnage is calculated on the basis of the amounts per day that the vessel is exploited, as set out below. If shipping enterprises only own a part of a seagoing vessel, they will be taxed only for the tonnage attributable to themselves.

<table>
<thead>
<tr>
<th>Total net tonnage</th>
<th>Income per day per 1,000 net tons (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 1,000</td>
<td>9.08</td>
</tr>
<tr>
<td>1,001–10,000</td>
<td>6.81</td>
</tr>
<tr>
<td>10,001–25,000</td>
<td>4.54</td>
</tr>
<tr>
<td>25,001–50,000</td>
<td>2.27</td>
</tr>
<tr>
<td>More than 50,000</td>
<td>0.50</td>
</tr>
</tbody>
</table>

The reduced rate of €0.50 per day per 1,000 net tons for vessels of at least 50,000 net tons is only applicable for vessels that either:

- Are registered under a flag after 31 December 2008
- In the five years preceding the election for the tonnage-based profit calculation, were flying a non-EU or EEA flag
To make the tonnage tax regime beneficial for ship management activities, the taxable profit based on the table as set out above may be decreased by 75% with respect to a shipping enterprise that does not own a vessel but performs the entire crew and technical management of a vessel for the owner (and, consequently, tonnage-based taxation is applied).

The taxable amount, which is calculated by applying the above table, is taxed at the general CIT rates. In 2016, the tax rates are as follows:

- Taxable income up to €200,000 is taxed at 20%.
- Taxable income over €200,000 is taxed at 25%.

### 1.1.2 Corporate income tax – other tax incentives

#### 1.1.2.1 Accelerated depreciation

Shipping companies that qualify for the tonnage-based taxation but do not opt for tonnage-based taxation may apply for accelerated depreciation of the vessels. This means that an annual depreciation rate of 20% of the initial cost, less the residual value, can be applied. Accelerated depreciation is only possible if the shipping business is profitable. If the shipping company suffers a loss, part of the 20% figure cannot be used. The remainder will be added to the 20% for the next year.

#### 1.1.2.2 Regressive depreciation

If a shipping company does not opt for tonnage-based taxation, the shipping company may apply depreciation at a regressive rate on seagoing vessels. The regressive depreciation rate depends on the life of the vessel and the residual value. The maximum rate for regressive depreciation is 12.1% of the book value for a new vessel.

#### 1.1.2.3 Investment deduction

Investment incentives in the Netherlands are granted at the request of the taxpayer and are available for shipping companies that do not opt for the tonnage-based taxation. A percentage of the total amount invested during a financial year can be deducted from taxable income. The investment deduction applies if between €2,300 and €311,242 (figures for the year 2016) is invested in relevant assets during a year. The size of the deduction depends on the amount of the investment and could be as much as 28% of the total amount invested.

### 1.1.3 VAT

#### 1.1.3.1 Zero rating for VAT purposes

The supply and leasing of seagoing vessels (except for yachts used for recreational purposes) are zero rated (exempt with input VAT recovery credit) for VAT purposes.

The supply of goods (e.g., equipment to be used on board) and services (e.g., repair services) to outbound seagoing vessels is in most cases zero rated if supplied to:

- Commercial seagoing vessels
- Vessels used for rescue or assistance at sea
- Vessels used for coastal fishing with the exception of ship's provisions
- Warships with a harbor or anchorage berth outside the Netherlands as their destination

In addition, services related to the cargo transported by these seagoing vessels (e.g., loading and unloading) are VAT zero rated in most cases.

The VAT zero rate also applies to international passenger transport carried out with seagoing vessels. A reduced rate (currently 6%) applies to domestic passenger transport.

#### 1.1.3.2 Place of supply rules

Supplies of services (including services to outbound seagoing vessels) are in principle not subject to Dutch VAT if the business recipient of the service is established outside the Netherlands. VAT is levied in the country of establishment of the business customer in that situation. However, supplies of services to outbound
seagoing vessels by nonresident taxable persons to a Dutch business recipient are in principle subject to Dutch VAT, but again, VAT is zero rated in most cases.

### 1.1.3.3 Bunkering

The supply of fuel in tripartite arrangements involving the VAT zero rating for the fuelling or provisioning of seagoing vessels has been challenged in the Court of Justice of the European Union (CJEU). The CJEU held that in the facts of the case, where the intermediary has no knowledge/control of what has been supplied until after the event, the supply of fuel was made by the seller (party A) direct to the vessel operator (party C) (and not to the intermediary (party B)).

Up to January 2016, the Dutch tax authorities have not released any formal guidance in relation to this judgment. Until further guidance is issued, the judgment is applied for bunkering supplies by a seller in the Netherlands. This means that a seller (party A) can apply the Dutch VAT zero rate for bunkering supplies of seagoing vessels in the Netherlands, even though the fuel is legally supplied to the intermediary (party B) and not to the vessel operator (party C). Effectively, this means the seller applies the VAT zero rate on its supplies to party B, since intermediaries are deemed to purchase and supply goods from a Dutch VAT perspective under current law.

### 1.1.3.4 Recovery of Dutch VAT incurred on costs

In principle, businesses can recover Dutch VAT incurred on costs. However, for certain types of costs (e.g., private use of business assets, such as company cars), only a partial recovery is possible, whereas for some other types of costs (e.g., food and drinks used in hotels and restaurants), no recovery is possible at all.

Nonresident shipping companies that do not carry out supplies subject to VAT in the Netherlands can file a refund claim for Dutch VAT incurred on costs at the Tax and Customs Administration (Belastingdienst) for nonresidents (for businesses established outside the EU) or at the local tax office in their own EU country (for businesses established in another EU member state).

### 1.2 Tax facilities for seafarers

#### 1.2.1 Wage cost deduction

Under the wage cost deduction regulation, shipping companies that act as withholding agents for payroll tax purposes can, on certain conditions, deduct 40% of the wages of the Dutch-resident taxpaying seafarers from the total amount of payroll tax and national insurance contributions to be remitted to the Tax and Customs Administration. The wage cost deduction of 40% is also applicable for non-Dutch-resident seafarers who are residents of an EU country or a country that is a member of the EEA. It is not required that the Dutch-, EU- or EEA-resident seafarer be liable for wage tax or national insurance contributions in the Netherlands in order to apply the wage cost deduction. Please note that the effect is limited, because a Dutch-, EU- or EEA-resident seafarer working on board a vessel flying the Dutch flag will in practice almost always be liable for wage tax or national insurance contributions in the Netherlands.

If the seafarer is not a Dutch, EU or EEA resident but is liable for wage tax in the Netherlands, or even only liable to pay national insurance contributions, the deduction is 10% of the wages.

The facility only applies to vessels flying the Dutch flag that are operated mainly at sea. In principle, vessels used for the international overseas transport of goods or persons are regarded as sea vessels. In addition, so-called sailing Commercial Cruising Vessels (CCVs) are also regarded as sea vessels. As a consequence, the wage tax facility can be applied in more situations.

Vessels used for pilotage services, sailing boats, tugboats used in harbors, dredging vessels without their own propulsion or without cargo space, and fishing boats (commercial fishery) are excluded from the facility.

Seafarers working on a ship with an operational business regarding scheduled passenger services between ports in the EU, who do not have the nationality of one of the EU or EEA countries, are not seafarers in the sense of this remittance deduction.
1.2.2 Work-related costs scheme

From 1 January 2015 for all employers established in the Netherlands, the application of the so-called work-related costs scheme is mandatory. In 2016 there are some changes to the work-related costs scheme.

All shipping companies that are regarded as a withholding agent in the Netherlands should comply with the mandatory rules by 1 January 2015:

- The general exemption is 1.2% of the total salary for wage tax purposes.
- The necessity requirement applies for equipment, computers, mobile communication devices and similar devices. If an employer believes that these facilities are necessary for his conduct of business, then the equipment will be tax free, under additional conditions.
- The wage tax levied on the work-related costs is a final levy, fully for the account of the employer and, as a result, not to be withheld on the gross wage of the employee (with a few exemptions). The employer bears the costs of a final levy of 80% to be paid on all work-related costs.
- After the end of each calendar year, the excess over the general exemption (1.2% of the total salary for wage tax purposes) can be determined in one-off review. Any tax due is payable for the first period of the next calendar year.
- A specific exemption is introduced for the discount on companies’ own products, which is very similar to the former regulation for companies’ own products.
- A group policy is introduced, under which companies within a group are allowed to create one collective general exemption. The employers may choose whether or not to use this option. This rule then applies to all group companies that meet the direct or indirect ownership rules of at least 95% participation during the full calendar year.
- A specific exemption is introduced for some workplace-related facilities. A zero rating is already possible for these facilities. The fiscal distinction between all allowances and payments-in-kind is removed for these workplace-related facilities.
- For seafarers, the provision of meals and lodging on board sea vessels is tax free within the work-related costs scheme.

1.2.3 Changes to the work-related costs scheme in 2016

The customary criterion has been tightened up from 2016. Not only must allowances and benefits be customary, but it must also be customary to designate these as work-related costs. From 2016, it must therefore be customary that the employer bears the payroll tax payable on the wage element concerned. Normal salary, holiday pay and large bonuses have been given as examples of designated elements that are not customary.

The employer may only use the specific exemptions and the tax-free budget under the work-related costs scheme if the employer had already designated the allowances and employee benefits granted to the workforce as work-related costs by writing it into the employer’s (financial) administration or labor conditions.

The shipping company has to determine for itself, on the basis of the current employment conditions, what the impact of the work-related costs scheme would be on its business. If the scheme has an adverse impact, then the shipping company has to adjust its employment conditions as soon as possible, such that the payroll tax to be paid (the final levy of 80%) remains as low as possible. It is important to check not only existing contracts but also employment contracts with new employees.

1.3 Tax treaties and place of effective management

The Netherlands has concluded tax treaties with more than 90 countries (including a tax agreements with the former Netherlands Antilles). The Netherlands has also concluded tax information exchange agreements (TIEAs) with 29 countries. Most tax treaties are based on the Organisation for Economic Co-operation and Development (OECD) model treaty for the avoidance of double taxation.
The Netherlands has tax treaties with the following jurisdictions: Albania, Argentina, Armenia, Aruba, Australia, Austria, Azerbaijan, Bahrain, Bangladesh, Barbados, Belarus, Belgium, Brazil, Bulgaria, Canada, China, Croatia, Cuba, Curaçao, Czech Republic, Denmark, Egypt, Estonia, Ethiopia, Finland, France, Georgia, Germany, Ghana, Greece, Hong Kong, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Japan, Jordan, Kazakhstan, Korea (South), Kuwait, Latvia, Lithuania, Luxembourg, Macedonia, Malaysia, Malta, Mexico, Moldova, Morocco, New Zealand, Nigeria, Norway, Oman, Pakistan, Panama, Philippines, Poland, Portugal, Qatar, Romania, Russian Federation, Saudi Arabia, Singapore, Slovak Republic, Slovenia, South Africa, Spain, Sri Lanka, St. Maarten, Suriname, Sweden, Switzerland, Taiwan, Thailand, Tunisia, Turkey, Uganda, Ukraine, United Kingdom, United States of America, Uzbekistan, Venezuela, Vietnam, Yugoslavia,* Zambia and Zimbabwe.

*The provisions of the Netherlands-Yugoslavia double tax avoidance treaty are treated as remaining in force between the Netherlands and Bosnia-Herzegovina, Montenegro and Serbia.

Besides the aforementioned treaties, there are specific agreements on the taxation of shipping income with the following jurisdictions: Argentina, Bermuda, Estonia, Greece, Hong Kong, Isle of Man, Latvia, Lithuania, Mexico, Panama and Venezuela.

In most tax treaties, the place of effective management is an important criterion for determining whether a company is subject to tax in the Netherlands. If a company is registered abroad, but the place of effective management of the shipping activities is in the Netherlands, the shipping activities will be subject to tax in the Netherlands. The place of effective management is determined based on the actual facts with respect to managerial activities. All managerial aspects are taken into consideration.

### 1.4 Freight taxes

Although freight taxes do not apply in the Netherlands, they do apply in some countries with which the Netherlands has concluded tax treaties. It is not yet clear whether all tax treaties grant relief from freight tax. It can be argued that freight taxes are taxes to which a specific treaty can apply. This could result in a total or partial exemption from freight tax. If freight tax is not covered in the relevant tax treaty, an exemption may still apply on the basis of the levying country’s national law. Some countries that levy freight taxes also grant relief under national rules. In some cases, the rules state that shipowners resident in an EU member state, for example, are not required to pay freight tax. The Netherlands is often listed as a country whose shipowners are exempt. If no exemption applies, freight tax can only be seen as a cost, resulting in a deduction of 25% (general CIT rate for 2016, as mentioned in 1.1) of the amount of freight tax. Obviously, relief is more beneficial than a deduction.

### 1.5 Special vessel registration benefits for the shipowner

Registration can be an important factor affecting whether seafarers are covered by social security and the aforementioned wage tax facilities. Under the new tonnage tax legislation, in principle, EU or EEA flag registration is a requirement for the application of the tonnage tax regime. Registration is usually not a requirement for other income tax facilities.

### 2. Human capital

#### 2.1 Formalities for hiring personnel

In the Netherlands, Dutch shipowners have to meet specific requirements for hiring seafarers based on the Maritime Shipping Manpower Services Regulations (*Regeling Arbeidsvoorziening Zeescheepvaart*). These regulations stipulate that a Dutch shipowner may not hire foreign seafarers for employment on board vessels (e.g., captain, officer or naval technician) unless they have a certificate of registration with the Maritime Employment Office (*Arbeidsbureau Maritiem*). The term “foreign seafarers“ is understood to mean seafarers who:

- Do not live in the Netherlands or in any other EU country
• Live in an EU country where the freedom of movement for workers does not apply
• Do not have a work permit
• Have not worked for at least two years in the Dutch shipping industry under a Dutch collective labor agreement, provided that the last employment was not longer than three years ago

Maritime law, therefore, requires a Dutch captain, in principle. However, the success of the shipping policy in the Netherlands has led to a substantial growth of the Dutch fleet and to a shortage of Dutch captains. As a consequence, regulations have been adopted that provide exemptions for the requirement. Nevertheless, foreign captains and first officers must have sufficient knowledge of Dutch maritime law and are required, for example, to possess the necessary certificates showing maritime education and maritime experience.

2.2 Regulations on employing personnel

Under the Seafarers Act (Wet Zeevarenden), each vessel flying the Dutch flag has to have a crew certificate issued by the Minister of Infrastructure and the Environment. This crew certificate specifies the minimum number of crew members and their duties on board the vessel (besides the captain and the shipowner). The manager of the vessel has to apply for a crew certificate with the Minister of Infrastructure and the Environment for each individual ship. A crew policy for the specific vessel has to be enclosed with the application. This crew policy is a proposal by the ship manager and consists of the desired minimum number of crew members (besides the captain) with their specific duties.

A vessel has to be manned according to the crew certificate. Under some conditions, an exemption may apply for no more than six months.

The crew certificates must be published in a public register. The issued or withdrawn shipping certificates and the issued exemptions are registered in the Central Register of Crew Information.

Under the Seafarers Act, the ship manager has to keep a list of at least the education, experience, professional skills and medical fitness of each crew member of every vessel managed. The Seafarers Act sets professional requirements for the knowledge and skills needed for a position or activity on board a vessel. All those working on board who are subject to the provisions of the Seafarers Act must have a shipping certificate for the specific work involved.

Based on the Health Care Insurance Act, each insured person older than 18 years has to pay a nominal premium. Besides that, the employer has to pay an employer contribution of 6.75% for the year 2016 applicable for the onshore personnel, up to a certain annual wage subject to contribution.

However, for seafarers working on board of a vessel, the percentage of employer contribution in 2016 is 0%.

2.3 Maritime Labour Convention

Pursuant to the Dutch implementation legislation in the Dutch Civil Code of the Maritime Labour Convention 2006 (MLC), specific rights and obligations apply to seafarers, who are employed on seagoing ships that are entitled to fly the Dutch flag. Usually these seafarers will have a seafarer’s employment contract. Under such contract, including temporary agency work, seafarers are obliged to perform duties on board of a seagoing ship.

2.3.1 Seafarer’s employment contract

Within the aforementioned scope, employers have to comply with the prerequisites of the maritime paragraph of the Dutch Civil Code. Below some prerequisites will non-exhaustively be discussed.

• **Contract in writing:** A seafarer’s employment contract must be agreed on in writing. If not, the seafarer’s employment contract is null and void. A seafarer’s employment agreement may be concluded for a definite or an indefinite period of time, as well as for one or more specific voyages. Furthermore, a copy of this contract (including an English translation) has to be present on board of the seagoing ship concerned.

• **Mandatory clauses:** Seafarer’s employment contracts should contain specific maritime clauses under the maritime paragraph of the Dutch Civil Code, e.g., clauses stipulating the employee’s repatriation right and
whether or not a collective labor agreement (partly) applies.

- **Forbidden clauses:** Certain clauses cannot be agreed to. It is, for example, not legally valid to agree on a noncompete clause between seafarers and employers.

- **Minimum mandatory holidays:** Under the maritime paragraph of the Dutch Civil Code, seafarers are entitled to, at minimum, 30 mandatory holidays (calendar days) per annum, if the seafarer has worked the entire year and on a full-time basis, otherwise pro rata. Any holiday entitlement lapses three years after the last day of the calendar year in which the claim has arisen.

- **Repatriation:** As already mentioned, seafarers are entitled to repatriation in a fast and convenient manner, if feasible by airplane to a destination chosen by the seafarers. This right exists for example at periodic intervals after a working period or on completion of a seafarer’s employment contract. This right of repatriation includes the right of reimbursement of certain repatriation costs.

- **Hours of rest:** The minimum hours of rest on board of seagoing ships flying the Dutch flag is regulated by the Dutch Working Hours Act (Arbeidstijdenwet) and the Dutch Working Hours Decree (Arbeidstijdenbesluit Vervoer) and amounts, e.g., at least 10 hours in any 24-hour successive period.

- **Pension:** Seafarers employed on seagoing ships flying the Dutch flag shall in principle mandatorily participate in the Pension Fund for the Merchant Service (Bedrijfstak Pensioenfonds Koopvaardij). Note: Exceptions to this mandatory applicability exist.

### 2.3.2 Contract termination

The maritime paragraph of the Dutch Civil Code regulates specific contract termination rules. The minimum statutory notice period is seven calendar days during the service time of seafarers on board a seagoing ship. Seafarer’s employment contracts that are entered into for a definite period of time will end by operation of law in the first port the seagoing ship calls after that definite period of time.

### 2.4 Treaties relating to social security contributions

There are some specific international rules that apply to seafarers. As of 1 May 2010, the European Economic Community (EEC) Regulation No. 883/2004 is in force. In this regulation, the general rule is that a seafarer working on board a vessel flying the flag of an EU country should be insured in the same country. However, it could influence the social security position of seafarers engaged in cross-border work. Provided that certain conditions are met, one can apply for transitional provisions.

### 2.5 Manning issues with flying the Dutch flag

One of the major advantages of flying the Dutch flag is the wage cost deduction for seafarers (see section 1.2).

### 3. Corporate structure

#### 3.1 Most commonly used legal structures for shipping activities

Most companies operate as a private limited liability company (Besloten Vennootschap (BV)). The liability of the shareholders of a BV is limited to their interest in its share capital. The BV is independently liable for tax. If the shipping enterprise opts for the Dutch tonnage tax regime, the shipping enterprise may nonetheless benefit from the Dutch participation exemption. The Dutch participation exemption exempts income, such as dividends and capital gains and losses, realized with respect to a qualifying participation held by the Dutch shareholder. Among other requirements, the shipping enterprise should at least hold 5% of the nominal paid-up share capital of a company with capital divided into shares, and the participation is not considered to be held as a portfolio investment.

The structure of a Dutch permanent establishment or branch of a foreign company is also commonly used. If a tax treaty is applicable (see section 1.3), a branch office structure can lead to substantial tax savings for shipping companies.
The limited partnership is a commonly used legal structure for private individuals and corporations when participating in a ship finance structure. Participants in a limited partnership can take advantage of the Dutch tonnage tax regime. A closed limited partnership is regarded as transparent for Dutch tax purposes. This means that the participants can directly benefit from, for example, the tax deduction.

3.2 Taxation of profit distribution
Tax treaties usually regulate profit distributions and allow for a reduction of, or exemption from, withholding tax. Dividends received from participants that qualify for the participation exemption are exempt from CIT. Not only are dividends received from a qualifying shareholding exempt, but so are any capital gains on the disposal of a qualifying shareholding.

4. General information

4.1 Infrastructure

4.1.1 Major ports
The major ports are:
- Rotterdam (largest European port)
- Amsterdam
- Vlissingen
- Moerdijk
- Terneuzen
- Delfzijl and Eemshaven
- Dordrecht

4.1.2 Port facilities
The following facilities are readily available:
- Maintenance and repair
- Docking
- Storage
- Cranes for every size of vessel
- Multi-core pipelines

4.1.3 Support services for the shipping industry
The following support services for the shipping industry are available:
- Banks with a shipping desk
- Consulting firms specializing in shipping
- Maritime law services
- Insurance brokers for the shipping industry

4.2 Registration

4.2.1 Registration requirements
Dutch law identifies three types of seagoing vessels:
- Merchant ships
- CCVs
- Pleasure crafts

Article 311 of the Commercial Code (Wetboek van Koophandel) sets forth the requirements for qualifying as a Dutch seagoing vessel.
The main conditions for flying the Dutch flag are as follows:

- The ship has to be owned by one or more:
  - Private individuals who have the nationality of an EU Member State, of a state that is part of the EEA, of Switzerland or who are considered equivalent to EU subjects on the basis of EU law
  - Companies or other legal entities subject to the laws of an EU Member State, the laws of some of the countries or areas as mentioned in Article 299 of the European Commission (EC) Treaty, the laws of other countries that are part of the EEA or the laws of Switzerland
  - Private individuals or legal entities that have the right of free establishment on the basis of a treaty of the EU with another state

- The owner should have an establishment or branch (as set forth in Dutch legislation) in the Netherlands and manage the ship from the Netherlands through one or more private individuals who have the authority to act on behalf of the owner in all matters regarding the ship, its captain and other crew members. A substitute with full powers should be appointed for cases of absence.

In cases where the management has been transferred to a company as referred to above, the owner does not have to establish an office in the Netherlands, provided the owner elects domicile at the Dutch office of the company managing the vessel.

A vessel that is not used for commercial purposes is a Dutch ship if it is owned by a private individual or legal entity as referred to above and a private individual in the Netherlands has sufficient power of attorney to act promptly on behalf of the owner if required.

Merchant ships and CCVs can be registered as a Dutch ship in two different ways, namely by standard (full ownership) registration (4.2.2) or by registration as a bareboat charterer (4.2.3). Dutch ships are registered in the shipping register in Rotterdam.

4.2.2 Standard registration procedure

The standard registration of seagoing vessels requires the owner to produce:

- A signed statement of the owner of the vessel in which he or she states that to his or her best knowledge, the vessel can be registered as a seagoing vessel
- A statement issued on behalf of the Minister of Infrastructure and the Environment proving that the owner complies with the provisions of Article 311 of the Commercial Code
- A certificate of deletion from the former register if the ship was previously registered abroad; should the former register not be willing to honor the application for deletion, such information should be contained in the Dutch register

4.2.3 Registration as a bareboat-chartered vessel

The second option for registering a seagoing vessel in the Netherlands is as a bareboat-chartered vessel. A seagoing vessel that is registered outside the Netherlands may be registered in the Dutch Bareboat Register under the following conditions:

- The ship has to be owned by one or more:
  - Private individuals who have the nationality of an EU Member State, of a state that is part of the EEA, of Switzerland or who are considered equivalent to EU subjects on the basis of EU law
  - Companies subject to the laws of an EU Member State, the laws of some of the countries or areas as mentioned in Article 299 of the EC Treaty, the laws of other countries that are part of the EEA or the laws of Switzerland
  - Private individuals or companies that have the right of free establishment on the basis of a treaty of the EU with another state

- The owner should have an establishment or branch (as set forth in Dutch legislation) in the Netherlands and manage the ship from the Netherlands through one or more private individuals who have the authority to act on behalf of the owner in all matters regarding the ship, its captain and other crew members. A substitute with full powers should be appointed for cases of absence.
- The bareboat charterer accepts all responsibilities for ship and crew arising from bareboat registration as a Dutch vessel.
- The owner or bareboat charterer agrees unconditionally, and in writing, to fly the Dutch flag.
- No conflict in law may exist or arise between the state of registration and the Netherlands regarding registration as a bareboat charterer.

4.2.4 Required information
The following data and documents concerning the vessel must be available at all times at the owner's office or at the bareboat charterer's head or branch office in the Netherlands:

- Position of the vessel
- State of the technical maintenance of the vessel
- Names, positions and certificates of competence of all crew members on board the vessel
- All data on the crew, in accordance with Chapter 3 of the Maritime Crew Act
- Individual and/or collective employment contracts of all crew members on board the vessel
- If applicable, names of passengers or other persons on board the vessel
- If dangerous or hazardous goods are being transported, all details of the cargo in accordance with Chapter VII of the International Convention for the Safety of Life at Sea (SOLAS), 1974, as amended, and related legislation

4.2.5 Requirements for officers and crew serving on vessels
Under the Maritime Crew Act, the captain should have the nationality of a state of the EU or EEA, with limited exceptions. The vessel must have a valid manning document issued by the authority stated in the law. The crew should at least consist of qualified staff to fulfill the positions as stated on the crew certificate.

4.2.6 International conventions

Other relevant conventions, inter alia, include the:

- International Convention on Standards of Training, Certification & Watchkeeping for Seafarers 1978, as revised in 2010 (STCW 78)
- International Convention for the Safety of Life at Sea (SOLAS), 1974, as amended
- International Convention for the Prevention of Pollution from Ships, 1973, as modified by the Protocols of 1978 and 1997 relating thereto (MARPOL 73/78/97)
- International Convention on Tonnage Measurement of Ships, 1969 (Tonnage 69)
- Bonn Agreement for Cooperation in Dealing with Pollution of the North Sea by Oil and Other Harmful Substances, 1983, as amended
- International Convention on Civil Liability for Bunker Oil Pollution Damage, 2001 (Bunker 2001)
The Netherlands
New Zealand

1. Tax

1.1 Tax facilities for shipping companies

Shipping companies are treated like any other company and are subject to the standard tax laws of New Zealand. The current company tax rate is 28%.

Where a ship owned or chartered by any nonresident carries outside New Zealand any goods or passengers shipped or embarked in New Zealand, 5% of the gross passage or carriage fee is deemed to be gross income derived by the nonresident from New Zealand. Merchandise, goods, livestock, mail or passengers shipped or embarked at any port in New Zealand are deemed to be carried outside New Zealand from that port regardless of the fact that the ship may call at other ports before finally leaving New Zealand.

Most of New Zealand’s double tax agreements (DTAs) provide that income will be exempt for shipping operations of other jurisdictions. In addition, the Inland Revenue Department may grant an exemption (in whole or in part) from this income tax liability, where it is satisfied that there is a reciprocal arrangement for New Zealand shippers with the nonresident shipper’s country of residence. In this regard, the shipping income tax exemption of that other country must be of substantially the same nature as that in New Zealand. New Zealand has entered into exemption arrangements with the following countries: Barbados, Bermuda, Brazil, Greece, Israel, Liberia, Netherlands Antilles, New Caledonia, Panama, Papua New Guinea, Tonga and Vanuatu.

Requests for the shipping income tax exemption can be made to the Commissioner of Inland Revenue. Requests should be accompanied by confirmation from the nonresident shipping operator’s home jurisdiction that, in corresponding circumstances, that jurisdiction would not tax the profits of a New Zealand resident shipping operator in that jurisdiction.

Nonresident shipping operators may ship or embark cargo in New Zealand for delivery to other ports in New Zealand provided that certain conditions are met (outlined in the Maritime Transport Act 1994). The income derived from the transport of domestic cargo is specifically deemed to be derived from New Zealand and is accordingly assessable for income tax in New Zealand.

Goods and services tax

New Zealand has a consumption tax, called the goods and services tax (GST), levied at 15%. This is incorporated into the total price of all goods and services provided in New Zealand. Where a shipping company is registered for GST, it can claim back the GST incurred on acquisitions of goods and services (an input tax credit) where the imported goods are acquired for the purpose of making taxable supplies. A zero rating of GST applies to exported services (such as international transportation) and goods supplied as consumable stores intended for use on a foreign-going ship. However, this is a particularly complex area as it applies to the shipping industry, and specific advice should be obtained.

Depreciation

Depreciation rates in New Zealand are generally very low, around 10% diminishing value (DV) for vessels. A concessionary depreciation rate of 12% DV on secondhand shipping vessels has now been removed. There are, however, different depreciation rates for special purpose vessels. These rates compare unfavorably to other shipping nations as reported in Shipping Review 2000, a publication issued by the New Zealand government.

1.2 Tax facilities for seafarers

Seafarers are classified as normal wage earners. Pay as you earn (PAYE) gives effective tax deductions at the appropriate rate for all employees. A nonresident shipping operator must deduct PAYE from salary and wages paid to employees when the employees are present in New Zealand. PAYE may not have to be deducted if the Inland Revenue Department is satisfied that the employee is or will be exempted or provided
with relief from New Zealand tax, either because the employee is present for fewer than 92 days in an income year (1 April to 31 March) or by the operation of a DTA. PAYE is required to be deducted unless the Inland Revenue Department approves otherwise.

1.3 **Tax treaties and place of effective management**

New Zealand has a network of 40 double tax treaties with its main trading and investment partners aimed at reducing tax impediments to cross-border trade and assisting tax administration. These treaties generally comply with the Organisation for Economic Co-operation and Development (OECD) model treaty. Under the treaties, profits from ships are generally taxable in the country where the ship is registered. New Zealand currently has treaties with the following jurisdictions:

Australia, Austria, Belgium, Canada, Chile, China, Czech Republic, Denmark, Fiji, Finland, France, Germany, Hong Kong, India, Indonesia, Ireland, Italy, Japan, Korea (South), Malaysia, Mexico, Netherlands, Norway, Papua New Guinea, Philippines, Poland, Russian Federation, Samoa, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, United Arab Emirates, United Kingdom, United States of America and Vietnam.

The place of effective management determines a country’s primary right under most DTAs to tax shipping companies’ profits from international operations. The profits of international shipping companies that trade in many states should be taxed in only one of the states, namely the place where the effective management of the company is.

New Zealand views “effective management” as the place where the key management and commercial decisions that are necessary for the conduct of the entity’s business are in substance made.

1.4 **Freight taxes**

There are no special freight taxes in New Zealand.

1.5 **Special vessel registration tax benefits for the shipowner**

Registration entails no special tax benefits for the shipowner, although it does impose the domestic laws of New Zealand on the owner of the vessel and affords the protection of the New Zealand government.

1.6 **Changes to tax law**

*Double tax agreement with Canada*

The DTA between New Zealand and Canada came into force on 26 June 2015. For dividend payments arising in New Zealand and Canada, the DTA introduces a lower withholding tax rate of 5% provided that the dividend is paid to a company that directly owns at least 10% of the voting power of the company paying the dividend. The withholding rate on interest is generally at the reduced rate of 10% and potentially 0% for financial institutions provided the approved issuer levy (AIL) is paid by the New Zealand borrower. The withholding tax rate on royalties is generally at the reduced rate of 10%.

*Double tax agreement with Samoa*

The DTA between New Zealand and Samoa came into force on 23 December 2015, with the reduced withholding tax rates applying from 1 February 2016. For dividend payments arising in New Zealand and Samoa, the DTA introduces a lower withholding tax rate of 5% provided that the dividend is paid to a company that directly owns at least 10% of the voting power of the company paying the dividend. The withholding rate on interest is generally at the reduced rate of 10%. The withholding tax rate on royalties is generally at the reduced rate of 10%.

*Tax information exchange agreements*

New Zealand has expanded its bilateral tax information exchange agreements (TIEAs) network and signed 21 TIEAs with Anguilla, Bahamas, Bermuda, British Virgin Islands, Cayman Islands, Cook Islands, Curacao, Dominica, Gibraltar, Guernsey, Isle of Man, Jersey, Marshall Islands, Netherlands Antilles, Niue, St. Maarten, St. Christopher and Nevis, St. Vincent and Grenadines, Samoa, Turks and Caicos Islands, and Vanuatu. The TIEAs with Cayman Islands, Cook Islands, Curacao, Gibraltar, Guernsey, Isle of Man, Jersey, Marshall Islands,
Netherlands Antilles, Niue, and St. Maarten are currently in force. The rest are not yet in force, and a specific timeline has not been given by the government. These agreements allow for the full exchange of information between New Zealand and the relevant state to manage and enforce domestic tax law.

1.6 **Tonnage tax**
New Zealand does not have a tonnage tax regime in place.

## Human capital

### 2.1 Formalities for hiring personnel

The hiring of personnel in New Zealand is primarily governed by the Employment Relations Act 2000 (ERA), which provides that parties to an employment relationship must deal with each other in good faith. The ERA is intended to encourage such good faith in all aspects of the employment relationship, but particularly in relation to bargaining.

All employees recruited following the enactment of the ERA on 2 October 2000 must have a written employment agreement. This may be a collective agreement if the employer is a party to a collective, or it may be an individual employment agreement. The ERA details content that must be included in these agreements and procedures that must be followed when hiring personnel. From 1 April 2011, all New Zealand employers are able to use the 90-day trial period for new employees. However, the trial periods are voluntary and must be agreed in writing and negotiated in good faith as part of the employment agreement.

New minimum wage rates for adults, new entrants and transfers came into effect on 1 April 2015 under the Minimum Wage Order 2015. The minimum wage rate is NZ$14.75 per hour for adults (increased from NZ$14.25 per hour) and NZ$11.80 for new entrants and new trainees (increased from NZ$11.40).

Leave provisions are encapsulated in the Holidays Act 2003. This act outlines information regarding the rights and responsibilities of employees and employers in the workplace. The current act broadly covers minimum legal entitlements to annual holidays, public holidays, sick leave and bereavement leave.

The Privacy Act 1993, Human Rights Act 1993, and Health and Safety in Employment Act 1992 (HSE Act) apply to employment situations. From 4 April 2016, the HSE Act will be superseded by the Health and Safety at Work Act 2015 (HSW Act). Maritime New Zealand administers the provisions of the HSE Act (and will administer the HSW Act going forward) for the maritime sector, specifically for ships.

### 2.2 National labor law

New Zealand’s labor laws apply to all New Zealand-flagged vessels.

### 2.3 Regulations on employing personnel

In some instances, employees are recruited by the employer directly, while sometimes they are recruited through a recruitment company acting on behalf of the employer. Positions are generally advertised in the country’s main newspapers and on the internet. A position description is commonly developed to provide a detailed understanding of the role and the specifications. After reviewing all candidates, short-listed candidates are interviewed face-to-face in almost all cases. It is important that the recruiter and interviewer are aware of the grounds for discrimination set out in the Human Rights Act 1993 so as not to discriminate against any of the candidates. Psychometric testing is often carried out. When an offer of employment is to be made to a new employee, the employer must ensure it complies with the procedures detailed in the ERA.

### 2.4 Collective labor agreements

The number of unions has increased since the introduction of the ERA because only unions are empowered to negotiate collective employment agreements. In comparison, individuals can be represented in negotiations for an individual employment agreement by representatives of their choice. Union membership is voluntary, but collective bargaining is promoted by the ERA as it puts measures in place to encourage people to join.
unions and sets out good faith requirements in relation to collective bargaining.

All collective agreements must be in writing and must include the following matters:

- A coverage clause
- A clause dealing with the rights and obligations of the employees and employer if the work of any of the employees is to be contracted out or the business or part of the business of the employer concerned is to be transferred or sold
- An explanation of the services available for the resolution of employment relationship problems
- A clause providing how the agreement can be varied
- The date on which the agreement expires or an event on the occurrence of which the agreement is to expire

All workers are entitled to receive minimum wage from their employer, notwithstanding anything to the contrary in any employment agreement. The Minimum Wage Act 1983 and Minimum Wage Orders set the rates. The latest update to the rates was effective from 1 April 2015.

Hours and days are negotiable between the employer and the employee at the time of employment. Leave provisions are governed by the Holidays Act 2003.

- Annual leave — After 12 months of continuous service with the company, every employee is entitled to not less than 4 weeks' paid annual leave.
- Special leave — After six months of continuous service with the company, every employee is entitled to five days' paid special leave (sick, domestic, bereavement leave) per year. However, this can be increased to a more generous amount should the employer wish to do so, for example, to 8 or 10 days' special leave.
- Public holidays — Every employee is also entitled to the 11 New Zealand public holidays, provided that they fall on days on which the employee would ordinarily work. If employees work on a public holiday, they are entitled to be paid time and a half for that day and receive a paid day in lieu.

Dismissal based on poor performance, disciplinary matters or redundancy must be both substantially justified and procedurally fair. The rules for issuing warnings and dismissing employees are well established in New Zealand case law. As noted, from 1 April 2011, all employers are able to use the 90-day trial period for all new employees, provided that trial periods are voluntary and must be agreed in writing and negotiated in good faith as part of the employment agreement.

Employers are not obligated to provide health insurance or subsidized health insurance to their employees, but many larger organizations in New Zealand do so.

2.5 **Treaties relating to social security obligations**

No such treaties exist in New Zealand. However, the government has made new arrangements effective from 1 July 2013 that will allow retirement savings from certain Australian superannuation funds to be transferred to the New Zealand KiwiSaver funds, and vice versa. The agreement means that Australian and New Zealand residents who live in either country may qualify for a benefit or pension from both countries.

2.6 **Manning issues with flying the New Zealand flag**

The flying of New Zealand's flag brings with it New Zealand law, particularly employment law.

3. **Corporate structure**

3.1 **Most commonly used legal structure for shipping activities**

The legal structure for the majority of New Zealand operational shipping activities is the limited liability company. The current company tax rate is 28%. Where the company is owned by nonresidents, a specific regime applies to limit the total income tax and nonresident withholding tax to 28%.

3.2 **Taxation of profit distribution**
Income derived from carriage by sea in New Zealand is deemed to have a New Zealand source. Tax is levied on profit distribution in line with normal New Zealand company tax laws and depends on the status of the recipient of the distribution. In general, either resident or nonresident withholding tax applies, but this can be reduced.

Where a dividend is paid to a New Zealand resident recipient, resident withholding tax (RWT) is substantially reduced by “imputing dividends” (that is, attaching tax credits). As the RWT rate on dividends is still 33%, despite the reduction in the company tax rate to 28%, the RWT cash flow cost (generally 5%) will remain for dividends paid to a New Zealand resident recipient.

Where a dividend is paid to a non-New Zealand resident recipient, the foreign investor tax credit regime has been modified by a 0% nonresident withholding tax (NRWT) rate under domestic legislation. Broadly, fully imputed dividends paid to “non-portfolio” (that is, 10% or greater) shareholdings are now subject to 0% NRWT.

4. Grants and incentives

4.1 Specific and/or general subsidies available to shipping companies
No subsidies exist for shipping companies in New Zealand.

4.2 Investment incentives for shipping companies and the shipbuilding industry
The New Zealand industry is fully deregulated, so there are no direct incentives for shipping companies or the shipbuilding industry. However, there are a number of funding incentives for businesses in general, which are in place to assist companies with growth strategies.

4.3 Research and development
The 15% tax credit for research and development that was introduced in 2007 and applicable in the 2008-09 year has been repealed, effective from the 2009-10 year. As a result, expenditure on activities in the 2009-10 and subsequent income years will not be eligible for the tax credit.

4.4 Special incentives for environmental awareness
No such incentives exist in New Zealand.

4.5 Issues with flying the New Zealand flag
There are no issues connected with flying New Zealand's flag in relation to grants or subsidies. The New Zealand government subsidizes other modes of transport, such as road and rail, either directly or indirectly, but the shipping industry receives no subsidies.

Labor and statutory compliance costs are high compared with other shipping nations. As a result, many may deem New Zealand to be less competitive than other nations with respect to the shipping industry.

4.6 Major changes in shipping subsidy legislation in the near future
No anticipated major changes have been reported, although the government may be examining possibilities to improve shipping in New Zealand. This may require the introduction of subsidies in order to stay competitive and attractive.

5. General information

5.1 Infrastructure

5.1.1 Major ports
The following are the largest ports in New Zealand, measured by the combined tonnage of exports passing through the port from largest to smallest:
5.1.2 Port facilities  
The following facilities are available:  
- Maintenance and repair  
- Docking  
- Storage including cold/dry storage, container and covered storage  
- Cranes for every size of vessel (in most major ports)

5.1.3 Support services for the shipping industry  
The following support services for the shipping industry are easily available:  
- Banks with a shipping desk  
- Consulting firms specializing in shipping  
- Maritime law services  
- Insurance brokers for the shipping industry

5.1.4 Maritime education  
Maritime education is provided by:  
- Bradley's Nautical School (Russell)  
- New Zealand Maritime School (Auckland)  
- International Maritime Institute of New Zealand (Nelson)

Apart from the specialized maritime educational institutions listed above, there are also a number of other maritime courses offered by various training institutions and polytechnics, as well as Maritime New Zealand.

5.2 Safety and environmental issues  
5.2.1 Implementation of the International Safety Management Code on board vessels  
The body responsible for ship safety management in New Zealand is Maritime New Zealand. Shipping companies have been required to comply with the International Safety Management (ISM) Code since it was made mandatory on 1 July 1998. Any ships inspected in New Zealand and found without the necessary ISM documentation will be detained until they obtain the necessary documentation from their administration.

5.2.2 Safety rules regarding manning  
New Zealand has strict requirements on employees' safety, demonstrated by its impressive safety record. The health and safety of maritime employees are governed by the HSE Act.

Under the HSE Act, employers are responsible for the safety of those on board New Zealand ships or any foreign ship on demise charter to a New Zealand-based operator when it is operating in New Zealand. This means they are required to identify and control significant hazards, provide appropriate training and supervision, and involve employees in developing health and safety procedures. Coverage includes not only
seafarers on New Zealand ships but all who are on board on business: pilots, ships’ agents, stevedores, provedores, surveyors, contractors and so on. The HSW Act will apply a higher standard of care than the existing HSE Act. In summary:

- It introduces specific new obligations on directors and senior managers to understand the health and safety matters in their companies and to take action.
- It brings with it significant potential personal liabilities for company directors (up to NZ$600,000 and five years in jail) if those duties are not met.
- Penalties for businesses will also increase significantly to a new maximum of NZ$3 million.
- It also introduces new obligations over the activities of others in a workplace, such as contractors, subcontractors and suppliers.

5.2.3 Special regulations on safety and the environment

Ship Safety Management (SSM), introduced in New Zealand by Maritime New Zealand, attempts to put ongoing safety measures in place to prevent maritime accidents to both vessels and crew. This is monitored by inspections and audits, with higher-risk vessels being inspected more often.

New Zealand has very strict environmental regulations to protect its diverse marine life. All ports in New Zealand emphasize the need for boats to discharge their ballast water in the deeper sea and not at port. Various marine service groups regularly test the water at ports to make sure there are no environmental hazards.

5.2.4 Maritime Security Act 2004

Increased concern about terrorism has seen the implementation of the Maritime Security Act 2004 (the Security Act). The Security Act attempts to protect ships against potential attacks and hijacking. The Security Act establishes a robust framework that will reduce the risk of security threats affecting the ships or port facilities. The instruments of the Security Act comply with the International Ship and Port Facility Security Code in the New Zealand context.

5.3 Registration

5.3.1 Registration requirements

The Ship Registration Act 1992 sets out the registration requirements in New Zealand. There are two classes of compulsory registration for New Zealand-owned ships:

1. Part A registration is for larger commercial vessels.
2. Part B is for pleasure vessels that need nationality for overseas voyaging.

For procedures, see section 5.3.2.

5.3.2 Ship registration procedure

Registration is performed through the New Zealand Register of Ships, which is located in Wellington. There are two types of registration, parts A and B as mentioned in section 5.3.1.

Part A registration

Registration is aimed at larger commercial vessels and provides evidence of title. It requires the following:

- Application for registration
- Appropriate fee (which varies depending on the length of the ship and whether a ship is secondhand or new)
- A builder’s certificate or a photocopy of a builder’s certificate if the ship has previously been registered in another country
- Evidence of all ownership changes from the builder to the present owner or, if the ship has previously been registered in another country, evidence of all ownership changes from the last registered owner overseas to the present owner
- Declaration of ownership and nationality
• If applicable, a certified transcript of any previous overseas registration and evidence that the registration has been closed, e.g., a deletion certificate
• For ships over 24 meters in length, an international tonnage certificate (1969) and a New Zealand surveyor’s tonnage certificate prepared by a surveyor recognized by Maritime New Zealand for this purpose
• For ships less than 24 meters register length, a surveyor's certificate issued by a recognized surveyor
• Carving and marking note signed by a recognized surveyor (for commercial ships)
• If the owner does not reside in New Zealand or does not have a registered office in New Zealand, an appointment of a representative person and a fee of NZ$184
• For demise charter ships, a declaration by the charterer and a copy of the charter party

In addition, a surveyor's fee will be charged for the measurement of the ship. A number of organizations around New Zealand are recognized by Maritime New Zealand to undertake measurements of ships for part A registration.

Depending on the circumstances of the case, a part A registration will take approximately 25 working days to complete. However, it does depend on the individual circumstances of each application.

**Part B registration**

Part B registration is aimed particularly at pleasure vessels that need nationality for overseas voyaging. It requires an appropriate fee and the following documentation:

• Application for registration:
  • The original form must be lodged; it cannot be accepted by fax or email.
  • Evidence of closure of any previous overseas registration, if applicable
  • Fee of NZ$920

No measurement by a surveyor is required for part B registration. The ship's overall length must be measured using the diagrams supplied by the registrar with the application form.

The approximate processing time for a part B registration is 10 working days.

### 5.3.3 Requirements for the officers and crew serving on vessels

Officers and crew must have the appropriate qualifications and be permitted to work in New Zealand.

### 5.3.4 International conventions regarding registration

Most major international conventions have been ratified by New Zealand.

### 5.3.5 Special requirements/rules relating to registration

A ship must be registered before it can be mortgaged.

### 5.4 General comments

For more information on the New Zealand shipping industry, visit the Ministry of Transport's website at www.transport.govt.nz. Alternatively, visit Maritime New Zealand’s website at www.maritimenz.govt.nz, which provides information on most areas of New Zealand shipping.
1. **Tax**

1.1 **Tax facilities for shipping companies**

*Standard tax*

Unless a Norwegian shipping company elects to be covered by the tonnage tax regime, it is subject to tax under the standard corporate income tax regime (i.e., profits are taxed at 25% as of 1 January 2016). The rate of depreciation of vessels under the standard tax regime is 14% according to the declining-balance method.

*Tonnage tax*

The main tax incentive is the tonnage tax system introduced in 1996, which made it possible to operate in Norway without being subject to normal corporate tax on operating income. Major amendments of the tonnage tax regime have been in effect since 1 January 2007, bringing the Norwegian system more in line with the European Union-based systems.

The Norwegian tonnage tax system provides a final exemption from tax on qualifying shipping income. Net financial income is subject to 25% tax.

A tonnage-taxed company may perform activities closely related to the operation of the company’s qualifying ships, but as a main rule, other business activities are not permitted by a company covered by the regime. Permitted activities and qualifying assets were expanded in 2007 to include strategic and commercial management as well as day-to-day technical operations and maintenance for group-related companies outside the tonnage tax regime. This also includes activities in group-related foreign companies and controlled foreign corporations (CFCs).

The minimum requirement for assets is primarily ownership of a qualifying vessel or ownership of at least 3% in a company or chain of companies owning such a vessel. There is no required ratio of owned vessels to chartered-in vessels, and there are currently no restrictions on bareboat chartering out of vessels.

The definition of qualifying vessels covers primarily ships in international trade carrying passengers and/or cargo. In addition, Norway allows auxiliary ships, such as AHTS vessels (anchor handling tug supply vessels), PSVs (platform supply vessels) and seismic vessels. Special rules apply to tugs.

Also included are entrepreneurial vessels, such as intervention vessels; inspection, maintenance and repair (IMR) vessels; crane vessels; and cable- and pipe-laying vessels, among others. If entrepreneurial vessels are operated on the Norwegian continental shelf, only hiring out on bareboat charter terms is allowed. Only income from the bareboat charter will be tax exempt under the regime. The company operating the entrepreneurial vessel would be subject to 25% tax on its net income.

The regime provides for the calculation of a special tonnage tax for shipping companies engaged in ocean-going shipping business on the basis of the net registered tonnage of their vessels. The tonnage tax for each ship is deemed to be equal to the following flat rates for every 1,000 net tons and days of operation:

<table>
<thead>
<tr>
<th>Total net tonnage (NT)</th>
<th>Fixed tax per day per 1,000 net tons, € (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 1,000</td>
<td>0</td>
</tr>
<tr>
<td>1,001 to 10,000</td>
<td>2.01 (2.22)</td>
</tr>
<tr>
<td>10,001 to 25,000</td>
<td>1.34 (1.48)</td>
</tr>
<tr>
<td>Over 25,000</td>
<td>0.67 (0.74)</td>
</tr>
</tbody>
</table>

The rates may be reduced if certain environmental requirements are met.
Upon entering the tonnage tax regime, the difference between fair market values and tax values will be taxed at 25%. This is referred to as an entry tax.

Under the tonnage tax system, foreign investors in a Norwegian shipping company are not granted any special additional benefits. Norway generally levies a withholding tax of up to 25% of the dividends distributed, but this is usually reduced (15%-0%) in accordance with the relevant tax treaty. As of 2004, dividends distributed to companies within the European Union (EU) or European Economic Area (EEA) are not subject to withholding tax, provided they have sufficient substance.

The Norwegian tonnage tax system is a ring-fenced system. Thus, the tonnage-taxed company must only own qualifying assets and perform permitted activities be performed by the tonnage-taxed company. A breach of the requirements entails a compulsory exit. No tax will be levied upon exit, but the company will be subject to ordinary income tax (25%) in the year of exit and subsequent years.

As of 1 July 2005, flag requirements have been added as a qualification in line with the EU and EEA requirements. The Ministry of Finance has decided that the flag requirement is valid for the fiscal year 2015. Any flagging requirement for the fiscal year 2016 will likely be announced by the Ministry of Finance in October 2016.

As of 1 July 2005, flag requirements have been added as a qualification in line with the EU and EEA requirements. The Ministry of Finance has decided that the flag requirement is valid for the fiscal year 2015. Any flagging requirement for the fiscal year 2016 will likely be announced by the Ministry of Finance in October 2016.

A group requirement has been introduced as of 2009, implying that eligible companies belonging to the same group must make the same choice as to whether to claim tonnage tax. Furthermore, a lock-in period of 10 years was introduced as of 2007. If a company exits the regime before expiry of this 10-year period, this will entail a waiting period (i.e., a period when this company will be locked out) that corresponds to the remaining part of the 10-year period.

Foreign international shipping companies with Norwegian management

Individuals or companies resident outside Norway will, in principle, not be subject to tax in Norway on income that results from owning vessels in international traffic, even though the vessels are effectively managed from Norway. The same applies to drilling rigs and construction vessels operating internationally. However, in some cases the exemption does not apply, for example, when the nonresident is a resident of a country with which Norway has concluded a tax treaty that grants Norway the exclusive right to tax income from international shipping or the nonresident has more than 34% Norwegian owners.

1.2 Tax facilities for seafarers

Seafarers, tax liable to Norway, may be entitled to a seafarer’s deduction on their income before tax is calculated. The deduction is provided if the seafarer has his or her primary work onboard a vessel in service and the work lasts for at least 130 days during the fiscal year. The seafarer’s deduction is set to 30% of income earned on board vessels in service, subject to a maximum of NOK80,000 (€8,953 and US$9,908).

The deduction shall be reported to the tax authorities by the employer if the requirements for minimum 130 days at sea in the fiscal year are met. The deduction must also be stated in the seafarer’s tax return.

1.3 Tax treaties and place of effective management

Norway has concluded double taxation treaties with the following countries: Albania, Argentina, Australia, Austria, Azerbaijan, Bangladesh, Barbados, Belgium, Benin, Bosnia and Herzegovina, Brazil, Bulgaria, Canada, Chile, China, Croatia, Cyprus, Czech Republic, Denmark*, Egypt, Estonia, Faeroe Islands*, Finland*, France, Gambia, Georgia, Germany, Greece, Greenland, Hungary, Iceland*, India, Indonesia, Ireland, Israel, Italy, Ivory Coast, Jamaica, Japan, Kazakhstan, Kenya, Korea (South), Latvia, Lithuania, Luxembourg, Macedonia, Malawi, Malaysia, Malta, Mexico, Montenegro, Morocco, Nepal, Netherlands, Netherlands Antilles, New Zealand, Pakistan, Philippines, Poland, Portugal, Qatar, Romania, Russian Federation, Senegal, Serbia, Sierra Leone, Singapore, Slovak Republic, Slovenia, South Africa, Spain, Sri Lanka, Sweden*, Switzerland, Tanzania, Thailand, Trinidad and Tobago, Tunisia, Turkey, Uganda, Ukraine, United Kingdom, United States of America, Venezuela, Vietnam, Zambia, and Zimbabwe.

*Nordic treaty
In addition, Norway has concluded special shipping treaties with the following jurisdictions: Argentina, China, Greece, Hong Kong, Korea (South), Lebanon, New Zealand and South Africa. To the extent that Norway has concluded general tax treaties with these countries, the general tax treaties will prevail.

Most treaties include a special article on shipping. Some treaties use the place of effective management as a basis for taxation of shipping. However, all new treaties are based on place of residence.

Norway’s tax treaties generally have an offshore article directed at shipping and service activities performed on the continental shelf.

1.4 Freight taxes
Norway does not levy freight taxes. It has concluded treaties that grant relief from foreign freight tax.

1.5 Special vessel registration benefits for the shipowner
There are no benefits with regard to taxation for vessels under a Norwegian flag. The tonnage tax system applies to ships sailing under any flag. However, the tonnage tax system has an EU or EEA flag requirement that states that the group of companies has to maintain or increase the existing level of vessels flying an EU or EEA flag until 60% of the fleet meets the requirement.

1.6 Changes to tax law anticipated in the near future
The tonnage tax system has been in effect since January 1996. The system was adjusted in 2007, and further adjustments may be expected as experience is gained.

In 2013 the Ministry of Finance appointed a committee (the Scheel Committee) to review the Norwegian corporate tax regime in light of international development. The Scheel Committee delivered its report on 2 December 2014. The report contained several proposed measures in line with the Organisation for Economic Co-operation and Development (OECD) base erosion and profits shifting (BEPS) project.

An initial set of measures addressing BEPS has been included in the 2016 Fiscal Budget (published on 7 October 2015), which was approved by the Norwegian Parliament on 14 December 2015 in accordance with the 2016 Fiscal Budget proposals. On the same date, the Ministry of Finance submitted a white paper (the White Paper) to the Parliament, which identifies certain key areas that may require legislative changes in order to mitigate BEPS exposure. The White Paper does not require a decision of the Parliament at the present stage. However, the White Paper includes suggested measures that will form the basis of later proposals by the Ministry of Finance.

Both the Scheel Committee proposals and the 2016 Fiscal Budget have been subject to public consultations.

Newly enacted changes
As of 1 January 2016, a new anti-hybrid rule has been implemented in Norwegian legislation for dividends received by a Norwegian company from a foreign subsidiary. According to this rule, dividends received by a Norwegian company from a foreign subsidiary will not be liable for tax exemption under the Norwegian participation exemption where the payment has been deducted for tax purposes by the distributing company.

Potential changes
In the White Paper, the Ministry of Finance proposes the following measures in order to simplify the existing CFC rules: (i) a reduction of the low-tax jurisdiction threshold from 2/3 to 3/4, and (ii) a removal of the exemption applicable to companies resident in tax treaty countries with mainly passive income. The consequences of implementing such measures will be further reviewed.

Norway has interest limitation rules, which limit interest deductions on related party debt to 25 % of tax EBITDA (earnings before interest, taxes, depreciation and amortization). The Ministry of Finance is currently evaluating whether to limit the deduction of interest expenses on third-party debt. The work currently focuses on developing measures to avoid limiting deduction of genuine third-party interest payments by specifically targeting profit shifting arrangements.

The Ministry of Finance proposed in the White Paper to introduce a statutory general anti-avoidance rule. The
The proposal will be assessed in more detail and recommendations are expected to be published during the spring of 2016.

The domestic law concept of what should constitute a permanent establishment (PE) is generally wider than the definition under treaties but should nevertheless largely be interpreted in the light of the OECD commentary. Current domestic law does not include any specific provisions targeting abuse of the definition of PE, but may be challenged under the general anti-avoidance rule (GAAR). In the White Paper, the Ministry of Finance proposes an evaluation of whether the PE threshold under Norwegian domestic law should be lowered. The proposals included in the White Paper are subject to further review.

In addition, restrictions on deductions of royalty payments and exclusion of outbound bareboat payments from Norwegian tonnage tax are being considered, as is withholding tax on interest and royalties inclusive bareboat lease payments. It is expected that proposals on implementing withholding tax on interest and royalties will be published for public consultation during 2016.

Finally, the depreciation rate has been proposed to be reduced from 14% to 10%.

Please note that no actual legislation has been proposed as this point. However, it is expected that the report and the White Paper will result in several legislative changes that may impact the shipping industry.

### 2. Human capital

#### 2.1 Formalities for hiring personnel

**General formalities**

All crew members must have:

- A medical certificate
- A written contract of employment signed by the employer or its representative
- Received appropriate training

Norway has ratified the Maritime Labour Convention (MLC), which entered into force for Norwegian ships on 20 August 2013. The Convention covers all essential aspects of working and living conditions on ships. This includes minimum ages, health, employment, employment contracts, payroll, work and rest, holiday homes, cabins and recreation areas on board, catering, medical assistance, the company’s responsibility in case of illness and injury, the working environment and protection against occupational accidents, welfare facilities in ports, social security schemes for medical care and for sickness benefits and workers’ compensation.

The Norwegian Ship Labour Act No. 102 of 21 June 2013 (Skipsarbeidsloven) has implemented these requirements.

**Certification requirements**

Crew members on Norwegian ships must have the relevant certificates for their respective positions. Before a certificate is issued, the crew member must have obtained a relevant qualification and have the required length of service. All crew members should have received approved basic safety training. The Norwegian certification rules reflect the rules of the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW) of the International Maritime Organization (IMO).

Crew members holding non-Norwegian certificates must apply to the Norwegian Maritime Directorate for qualification documents. Approval is granted only if the certificate is issued by a country that has entered into a bilateral agreement with Norway on mutual recognition of qualifications. Bilateral agreements exist between Norway and Argentina, Australia, Austria, Belgium, Brazil, Bulgaria, Canada, China, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, India, Indonesia, Ireland, Italy, Latvia, Lithuania, Lichtenstein, Luxembourg, Malaysia, Malta, Montenegro, Netherlands, New Zealand, Peru, Philippines, Poland, Portugal, Romania, Russia, Serbia, Singapore, Slovakia, Slovenia, Spain, Sri Lanka, Sweden, United Kingdom and Ukraine.
Further, a unilateral agreement has been entered into with United States.

2.2 National labor law

The two key laws governing the Norwegian maritime labor are the Ship Labour Act No. 102 of 21 June 2013 (Skipsarbeidsloven) and Maritime Safety Act No. 9 of 16 February 2007 (Skipssikkerhetsloven). These acts meet the United Nations International Labour Organization (ILO) Conventions and EU directives. On 20 August 2013, the Ship Labour Act replaced the Seafarers Act from 1975. One of the main purposes of the new act is to secure ship workers equal rights as employees on shore while at the same time taking into account the special considerations that apply to work at sea. The new act implements the MLC in Norwegian law.

The Ship Labour Act mainly applies to employees on Norwegian registered vessels (NOR or NIS). The Ship Labour Act does not apply to employees who only work on board while the vessel is to harbor. The structure of the act is more logical and modern, and the language has been made gender neutral; for instance, the term “seaman” is replaced by the gender neutral term “ship worker.”

2.3 Collective labor agreements

The Norwegian labor market is characterized by a strong governmental influence and a system of consultation on socioeconomic policy considerations. Trade unions are organized on an industry basis and have a strong political influence. Every fourth year, there are renegotiations of the collective agreements on a national level.

- In Norway, the most in the most influential trade unions are: Norwegian Maritime Officers’ Association (Norsk Sjøoffisersforbund)
- Norwegian Seafarers’ Union (Norsk Sjømannsforbund)
- Norwegian Union of Marine Engineers (Norsk Maskinistforbund)

Several Norwegian shipowner associations have entered into collective labor agreements with these three unions.

In addition, Norwegian ship owner associations have entered into collective bargaining agreements (CBAs) for seafarers serving on NIS ships with maritime unions in China, Croatia, Estonia, India, Indonesia, Latin America (Caribbean and South America), Latvia, Lithuania, Pakistan, Philippines, Poland, Ukraine, Romania and Russian Federation. The CBAs for Latin America and Pakistan have not been renewed for many years and therefore cannot be considered fully valid.

All the agreements listed above cover wages and other working conditions such as working hours, duration of service, vacation, repatriation, sickness and disability, death benefits, and war risk compensation. Thus, in some aspects, they are similar to the total crew cost (TCC) agreements of the International Transport Workers’ Federation (ITF). The agreements also include provisions on union subscriptions to Norwegian and local or national unions.

Without reference to any specific collective bargaining agreement, the basic principles are that seafarers from outside Norway may be hired under labor agreement standards in their countries of origin, but their wages have to meet ILO standards for seafarers’ wages. For all practical purposes, a particular TCC standard applies for all ships in international ship registers (flags of convenience). ILO standards are accepted as sufficient standards for bona fide ship registers (not flags of convenience).

2.4 Treaties relating to social security contributions

In principle, the Norwegian National Insurance Scheme applies only to Norwegian seafarers and foreign seafarers resident in Norway serving on Norwegian-flagged vessels. As regards non-Norwegian-flagged vessels, the National Insurance Scheme applies to seafarers resident in Norway and employed by a Norwegian shipping company.

The EEA treaty and EU Regulation 883/04 regarding social security provide that all EU citizens should be treated as Norwegians and be covered by the Norwegian public system.
Seafarers from EEA member states should be fully covered by the social security system in the EEA register state if they do not have an employer in their home country. If they have an employer in their home country, they are covered by the national social security system in their home country.

Thus, an EEA citizen working on a Norwegian-flagged vessel will, as the main rule, be covered by the Norwegian social security scheme. Seafarers, other than Norwegians working for a Norwegian company on an EEA-flagged, non-Norwegian-flagged, vessel, will, as a main rule, not be covered by the Norwegian social security scheme.

Seafarers from the EEA serving on Norwegian-flagged vessels employed by a company from their home country are still covered by the national scheme of their home country.

Norway has entered into treaties with Poland, Latvia and Romania. These treaties are valid indefinitely, but will most likely be in force at least to the end of 2016. Seafarers from these countries serving on Norwegian-flagged vessels may be insured by their home country based on an application to the national social security authorities even if they work on a Norwegian-flagged vessel.

For EEA seafarers covered by the Norwegian scheme, the employer must pay social security contributions of 14.1% of the seafarer’s gross wages to the scheme, and the seafarers must pay 8.2% of their gross salary. In addition, the employer must pay a contribution to the seafarer’s pension. Finally, for EEA seafarers, employers pay a premium in accordance with the Occupational Insurance Act.

For seafarers from countries outside the EEA area and catering crews serving on cruise vessels, the social security liabilities are covered by the protection and indemnity (P&I) clubs. Special P&I protection is required for catering crew members who are citizens of an EEA country.

Norway has entered into bilateral social security treaties with states outside the EEA. These states are Australia, Bosnia and Herzegovina, Canada, Chile, India, Israel, Montenegro, Quebec, Serbia, Switzerland, Turkey and United States. The treaties have separate clauses for seafarers. As a main rule, the seafarers should be covered by the social security scheme in the flag state if the flag state is a part of the treaty. Most of the treaties have been entered into with countries that are not well represented on board Norwegian vessels.

3. Corporate structure

3.1 Most commonly used legal structures for shipping activities

Typical legal structures that can be utilized are:
- Joint-stock companies
- General and limited partnerships

Due to the tonnage tax system, Norway has seen an increase in the use of joint-stock companies.

The average tax rate payable by shipping companies depends on whether the company has entered into the tonnage tax system. Generally speaking, the tax rate has been, and will be, very low (see section 1.1).

3.2 Taxation of profit distribution

Norwegian individual investors and owners are subject to tax at a rate of 28.75% of the received dividend that exceeds a computed risk-free interest on the tax base cost of each share.

Dividends and capital gains from shares in companies resident within the EEA are generally tax-exempt for corporate shareholders. However, the exemption does not apply to companies resident in a “low-tax jurisdiction” within the EEA unless the subsidiary is actually established and performs genuine economic activity there (i.e. meets the “substance” requirement). Losses are not deductible. From 7 October 2008, the participation-exemption method was amended to state that 3% of the tax-exempt income shall be considered taxable income subject to the ordinary corporate income tax rate of 25%. Thus, the effective tax rate under the exemption method will be 0.75% (i.e., 25% of 3%).

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Dividends and capital gains from investments outside the EEA are only exempt if (1) the shareholding is at least 10% of the share capital of the foreign company, (2) the shareholding has been at least 10% for at least two years and (3) the foreign company is not considered resident in a low-tax country.

Effective from 1 January 2012, the 3% rule will no longer apply to the following situations:

Capital gains derived from sale of shares or interests in limited liability companies, partnerships and other “qualifying companies”

Intragroup distributions between group companies covered by Norwegian group contribution rules (i.e., more than 90% ownership), distributions from an EEA company equivalent to a Norwegian qualifying company (i.e., having sufficient substance) or distributions from a Norwegian company to a PE of a foreign company (90% ownership requirement)

As of 1 January 2012, the 3% rule is introduced on distributions from partnerships (formerly tax-exempt), and 3% of distributions from the partnerships will always be included as income in the hands of the corporate partner (i.e., the group exemption referred to above is not applicable).

Furthermore, the scope of the 3% rule has been broadened to cover distributions of dividends to foreign companies with PE in Norway (not exempt under the 90% ownership rule). Thus, the business will have the right to deduct expenses incurred in relation to the shares, etc., of the PE in Norway.

There is no withholding tax on dividends paid by resident companies to corporate shareholders resident within the EEA if the shareholder satisfies the “substance” requirement. Dividends paid to other nonresident shareholders are subject to withholding tax at a rate of 25%, unless a lower rate applies under a tax treaty (15%-0%).

No stamp duty or transfer taxes are imposed on the transfer of shares. There is no capital duty on contribution of capital.

4. Grants and incentives

4.1 Tax refund for Norwegian seafarers

The Norwegian arrangement with supplements for the employment of Norwegian sailors is regulated by Norwegian domestic legislation, as well as ESA’s guidelines on state aid to maritime transport. The purpose of this arrangement is to encourage maritime activity in Norway, secure the Norwegian maritime competency and recruitment of Norwegian sailors, and ensure that Norwegian shipping companies are competitive.

The arrangement underwent several changes following the Norwegian government’s new maritime strategy, presented 29.05.2015. The changes are enacted and in effect as of 01.03.2016.

In general, grants may be given to any organization operating Norwegian-registered vessels, but there are certain requirements with regard to both the ships type and the crew. There is also a general requirement to on-board training positions. The arrangement is designed as a reimbursement scheme, and the size of the reimbursement is calculated from the operating organizations payment of Norwegian withholding tax and social security contribution for each crewmember covered by the arrangement. Applications for grants are submitted for two-month periods, with due date on the 25th on the month following the last month in each period.

With the changes implemented in 2016, the arrangement has been divided into several different schemes, or grant models. The required number of training positions and upper limits of grants vary between the different models. The applicable grant model is dependent upon the vessel type, its trade area and whether the vessel is registered in the NIS or NOR ship register.

4.2 Investment incentives for shipping companies and the shipbuilding industry

The shipbuilding subsidy scheme is aligned with the new EU scheme.
Norway has a shipbuilding credit guarantee scheme aligned with the Organisation for Economic Co-operation and Development (OECD) arrangement. The scheme is operated by the state-owned company Eksportkreditt on behalf of the Norwegian Ministry of Trade, Industry and Fisheries. The scheme applies to loans granted for the purpose of financing the construction or radical alteration of ships. Guaranteed loans of up to 85% of the approved contract price are given for the construction or alteration of ships.

4.3 Special incentives for environmental awareness
For companies that are subject to tonnage taxation, marginal reductions in tonnage tax may be granted if vessels fulfill certain environmental requirements.

4.4 Issues with flying the Norwegian flag
Until 1 January 2016, vessels registered in the NIS Register were mainly restricted from carry cargo in domestic trade, or passengers between Norwegian ports and some EU ports (cabotage).

Effective 1 January 2016 and 1 March 2016, the trading area for vessels flying the NIS flag is significantly expanded, as part of the Norwegian government’s maritime strategy. The changes are implemented to allow for more vessels to be registered in NIS, and are also related to the changes in the grant arrangement for the employment of Norwegian seafarers (c.f. Section 4.1 above).

With the expansion of the trade area, NIS-registered cargo ships may carry cargo between ports on Svalbard and between Svalbard and the Norwegian mainland. Cargo ships with a significant part of the operations taking place outside of Norwegian waters and special cargo ships may also – if certain requirements are fulfilled – carry cargo between Norwegian ports. Furthermore, offshore construction vessels are now permitted to travel between Norwegian ports, including installations on the Norwegian continental shelf.

There are also plans of further expansion of the trade area for passenger ships.

4.5 Major changes in shipping subsidy legislation anticipated in the near future
Norway follows the OECD rules. Amendments on the OECD transfer pricing guidelines following the BEPS project will have immediate effect in Norway.

The Norwegian Ministry of Finance is considering introducing a withholding tax on royalty payments, including bareboat lease payments. It is not feasible to apply a withholding tax on bareboat payments as long as the bareboat income is tax-exempt under the tonnage tax regime as that would constitute illegal discrimination under EEA law. Therefore the Ministry of Finance is considering an alternative where bareboat income is excluded from the tonnage tax regime. In this connection the EC investigation of the tonnage tax regime of Malta is followed closely as any restrictions resulting from the investigation may have an impact on the Norwegian tonnage tax regime.

No other major changes are expected in the near future.

5. General information

5.1 Infrastructure

5.1.1 Major ports
The major ports in Norway are:

- Oslo
- Grenland
- Stavanger
- Bergen
- Trondheim
- Narvik
5.1.2 Port facilities
The following facilities are available:
- Cranes
- Docking
- Maintenance and repair
- Storage

5.1.3 Support services for the shipping industry
The following support services for the shipping industry are readily available:
- Banks with a shipping desk
- Consulting firms specialized in shipping
- Maritime law services
- Insurance brokers for the shipping industry
- Experienced ship managers and shipping companies

5.1.4 Maritime education
There are five major colleges in Norway that offer a bachelor’s degree in nautical studies:
- Aalesund University College (Hogskolen i Alesund), Alesund
- Stord/Haugesund University College (Hogskolen i Stord/Haugesund), Haugesund
- University of Tromso, Tromso
- Vestfold University College (Hogskolen Vestfold), Tonsberg
- University of Nordland, Bodo

Colleges also offer specialized courses in maritime economics, engineering and logistics. In addition, there are several schools for nautical education at a lower level.

5.2 Safety and environmental issues

5.2.1 Implementation of the International Safety Management Code on board vessels
The International Safety Management Code is implemented in Norwegian law.

5.2.2 Safety rules regarding manning
The safety rules regarding manning are strict. The Norwegian regulations of 18 June 2009 on the manning of merchant ships apply to vessels registered in the NOR and the NIS (both described in section 5.3.1), which must have a manning certificate issued by the Norwegian Maritime Directorate.

5.2.3 International organizations
Norway is a member of the IMO (elected member of the council) and the ILO. Norway has ratified most IMO and ILO conventions, protocols and amendments, which also apply to NIS vessels.

5.3 Registration

5.3.1 Registration requirements
There are two ship registers in Norway: the NOR and the NIS. The NIS was established in 1987 in order to offer a flexible and commercially attractive alternative to the NOR while retaining the essential features of quality registers.

Ships registered in NIS are not permitted to carry cargo or passengers solely in domestic trade between Norwegian ports or engage in regular, scheduled passenger transport between Norwegian and foreign ports. Dispensations may be granted on a case-by-case basis. Oil and gas installations on the Norwegian continental shelf are regarded as Norwegian ports for the purpose of NIS. As of 1 January 2016, cargo ships are allowed to carry cargo between Norwegian ports as part of a regular route between Norwegian and foreign ports,
provided certain conditions are met.
The main manning requirements for NIS registered vessels are as follows:

- The vessel must have a manning certificate issued by the Norwegian Maritime Directorate.
- There are no restrictions on the nationality of the crew, except that dispensation is required if the master is not an EEA citizen.

The NIS legislation allows nonresident seafarers to be employed on local terms and with national wages. Seafarers from outside Norway may be hired in accordance with labor agreement standards in their countries of origin, but the terms must meet ILO standards.

5.3.2 Ship registration procedure
The registration procedure for NIS is described on [http://www.sjofartsdir.no/en/](http://www.sjofartsdir.no/en/).

5.3.3 Parallel registration
Parallel registration in NIS and NOR is not permitted.

5.3.4 Requirements for the officers and crew serving on vessels
If required by the IMO STCW standards, both officers and crew serving on NIS-registered vessels must hold Norwegian certificates or apply to the Norwegian Maritime Directorate for a qualification document on the basis of non-Norwegian certificates. Approval is granted only if the certificate is issued by an EEA country or a country that has entered into a bilateral agreement with Norway on mutual recognition of qualifications (see section 2.1 above). All seafarers should have received approved basic safety training.

5.3.5 International conventions regarding registration
Norway is a member of the IMO and the ILO. Norway has ratified most IMO and ILO conventions, protocols and amendments that also apply to vessels registered in the NIS.

The Norwegian Shipowners Association may also be consulted on NIS matters. The Norwegian Shipowners Association is a member of the International Chamber of Shipping (ICS).

5.3.6 Special requirements and rules relating to registration
NIS registered vessels are subject to public control by the Norwegian Maritime Directorate. The following classification organizations have been granted authority to carry out inspections of NIS registered vessels on behalf of the government and to issue all certificates for cargo vessels above 500 gross tons:

- American Bureau of Shipping (ABS)
- Bureau Veritas (BV)
- DNV GL AS
- Lloyd's Register of Shipping (LR)
- RINA S.p.A (RINA)
- Nippon Kaiji Kyokai (ClassNK)

6. Excise duty on emission of nitrogen oxide (NOx duty)
Vessels operating in and around Norway are at the outset subject to the NOx duty if they have propulsion machinery exceeding 750 kW. Only the owner of the vessels is required to register with the customs authorities, unless the owner is a foreign company, in which case the company must register with a representative based in Norway. For rigs, special provisions apply. The duty is incurred when emitting NOx, and the scope of the liability depends on the vessel’s traffic pattern. The duty is calculated per kilogram NOx emitted, and the rate for 2015 is budgeted at NOK19.19 per kilogram. The extent of the liability to pay the NOx duty depends on several factors, including the vessel’s flag affiliation, where the liability is greater for vessels sailing under the Norwegian flag. The legal basis for charging the duty on foreign registered vessels outside Norwegian territorial waters is unknown, and the legality of this
practice will likely be challenged in the future.

7. **Value-added tax (VAT)**

As a main rule VAT is a general tax that applies to the sale of goods, the provision of services and the importation of goods and services within the Norwegian VAT area. The Norwegian VAT rules have five different VAT rates (0%, 10%, 11.11%, 15% and 25%), whereas the rate of 0% and 25% are of the most relevance to the shipping industry. There are a number of exemptions (zero-rated VAT) in the Norwegian VAT Act that can be used by companies engaged in shipping, such as exemptions for certain types of purchases and sales of goods and services, as well as exemptions relating to international transportation and freight.

8. **Import of goods /customs**

As a starting point the importation of goods and services to the Norwegian VAT area is liable to VAT at a rate of 25%. However, there are exemptions for certain types of importation of goods and services. In addition there are customs duties for certain types of textiles and foodstuffs.
1. Tax considerations

1.1 Taxation of shipping companies

Corporate income tax

1.1.1 Omani shipping companies

The tax laws generally apply to shipping companies as they would apply to any other company operating in Oman. Omani-owned shipping companies that meet certain conditions, laid down under the executive regulations governing the tax law, qualify for tax exemptions on the income earned from carrying on shipping activity.

1.1.2 Foreign shipping companies

Shipping income accruing to a foreign person from carrying on shipping activity in Oman is exempt from tax, provided that the person carries on the activity in accordance with the laws and regulations in force in the country of incorporation and a similar treatment is accorded, on a reciprocal basis, to an Omani company in the country in which the foreign person is incorporated or where the effective management and control of the shipping company is exercised. All other income earned by the shipping company and arising in Oman shall be subject to tax in Oman in the normal course of doing business.

1.1.3 Tax treaties and place of effective management

Oman has entered into double tax treaties with Belarus, Brunei Darussalam, Canada, China, Croatia, France, India, Iran, Italy, Japan, Korea (South), Lebanon, Mauritius, Moldova, Morocco, the Netherlands, Pakistan, Seychelles, Singapore, South Africa, Spain, Syria, Thailand, Tunisia, Turkey, the United Kingdom, Uzbekistan and Vietnam.

Oman has also signed double tax treaties with Algeria, Belgium, Egypt, Germany, Portugal, the Russian Federation, Spain, Sudan, Switzerland and Yemen, but these treaties are not yet in force.

Finally, Oman has entered into treaties with several countries with respect to the avoidance of double taxation on income generated from international air transport.

Oman has ratified a free trade agreement (FTA) with the United States, effective from 1 January 2009. Under the FTA, a number of concessions are available to American companies wishing to set up business in Oman. The GCC countries, of which Oman is also part, have entered into an FTA with Singapore, but the agreement is not yet ratified by Oman.

Certain treaties such as with France, the Netherlands, Korea (South), Singapore and South Africa provide reduced rates of WHT on royalties, subject to satisfaction of certain conditions.

Treaties define what falls within the scope of “shipping activity” and what is taxable for foreign shipping companies in the contracting state.

In the absence of a treaty between Oman and a foreign country, provisions of local law shall prevail.

1.1.4 Bilateral agreements

Oman has signed bilateral agreements with Yemen, Syria, Jordan and Iran in the field of maritime transport and ports.

Preparations are under way to conclude bilateral agreements with Morocco, Tunisia, Algeria, Egypt and Turkey to promote cooperation between Oman and these countries in the field of maritime transport and ports.

1.1.5 International maritime conventions

Oman has signed more than 30 international maritime conventions, including maritime agreements issued by the International Maritime Organization (IMO), the International Hydrographic Organization and the United
Nation, such as the Convention on the Safety of Life at Sea (SOLAS), the International Convention for the Prevention of Pollution from Ships (MARPOL), the Convention on Standards of Training, Certification and Watchkeeping (STCW), the International Ships and Ports Security Code (ISPS code) and others.

In May 2008, the IMO included Oman on the so-called White List of STCW which was ratified under Royal Decree 65/90.

Oman is considering other international conventions, such as the Convention on Ballast Water Management, the Maritime Activity Convention and others emanating from the Secretariat of the League of Arab States.

1.1.6 Taxation of individual income of a seafarer
Oman does not impose personal taxation. Income of an individual seafarer employed on board a ship used in a business operated by an Omani company is not subjected to tax in Oman.

Employees who work on ships operated by foreign persons visiting Oman are not subject to tax on income arising in Oman.

1.1.7 Value-added tax
Currently, there is no legislation in Oman for imposition of value-added tax (VAT). Oman, along with other GCC countries is in the process of introducing the VAT framework. VAT is likely to be introduced across GCC, including Oman on 1 January 2018.

1.1.8 Duty
Foreign goods attract a custom duty of 5% of value at the point of importation in Oman.

1.1.9 Freight taxes
No freight taxes are levied in Oman.

1.1.10 Special vessel registration tax benefits for shipowners
No vessel registration tax benefits are available to shipowners in Oman. However, if vessels owned by an Omani company are not registered within the period set out in the maritime law, civil and criminal penalties may be applied.

2. Human capital

2.1 Regulations on employing personnel
Crews of Omani cargo vessels consist of Omani-qualified seafarers who hold certain required documents, as described below.

An Omani seafarer is allowed to carry out duty on vessels sailing outside Omani territorial waters only if he has obtained a seafarer's passport from the appropriate marine authority.

In order for any person to work on an Omani vessel or a ship, a permit and training from competent marine authority are required. The permit is provided in the form of a license or certificate issued to the person.

The person must be:
- At least 18 years old
- Medically fit to carry out marine work

Individuals between the ages of 12 and 18 may participate in job training on vessels pursuant to conditions issued under a decision from a competent minister.

There are no specific regulations with respect to the employment of personnel.

2.2 Articles of agreement (maritime law)
Generally, Omani labor law governs regulations for employment, including those pertaining to social welfare and worker compensation during the course of employment.
However, in relation to a person who undertakes to work on board a vessel, under the maritime law, articles of agreement (i.e., a contract for wages payable by the owner of a vessel) shall include the period of charter or voyage. Provisions in the law set out requirements for single voyages or multiple voyages.

The articles of agreement should be completed in triplicate, and the vessel husband (owner), competent marine authority and seafarer should each retain a copy. In certain cases, the articles of agreement may be retained jointly by husband and seafarer.

The agreement must include:
- Date and place of conclusion
- Name, nationality and domicile of the seafarer
- Type of work to be performed
- Details of seafarer’s passport and marine license
- Details of wages payable
- Date of departure and port at which voyage begins and ends

The articles of agreement may be brought to an end by either party or terminated by the competent marine authority due to one of the following:
- Expiry (in the case of a fixed-term contract) or by notice (in the case of an unlimited term of contract)
- Completion of voyage, if the contract is on a voyage basis
- Death or disembarkation of the crew member due to illness or injury
- Damage or unseaworthiness of a ship, withdrawal of license or seizure
- Court order, on loss or abandonment of the ship on any other legitimate ground (e.g., breach by either party of contract of employment)

Articles of agreement relating to an employment contract are usually for a definite period. If the contract expires during a voyage, it shall be extended until the end of the voyage.

On termination of duty, a seafarer can request that the vessel husband provide a certificate of completion of his duties and obligations under the agreement.

Wages and other amounts due to the seafarer shall be paid in the national currency, Omani rial. There are certain exceptions for making payment in foreign currency.

All the provisions of Omani labor law and social security shall apply to the articles of agreement, to the extent that these laws do not contradict the provisions of the maritime law. The provisions of social security and labor law in Oman shall become applicable in case of injury or sickness during a voyage and the sickness is not curable.

### 2.3 Oman Social Security Law

The Oman social security law contains provisions granting benefits to Omani employees (aged 15 to 59) in the private sector, in accordance with permanent labor contracts.

Employers must pay a monthly contribution and accrued end-of-service benefits (ESBs) for each employee. This law does not govern foreign workers. There are no social security provisions that apply to expatriate employees. Social security contributions are required only for Omani employees.

The rates of social security tax are as follows:
- Employee’s contribution – 7% of monthly wages
- Employer’s contribution – 11.5% of monthly wages

The amount so deducted shall be deposited with the Public Authority of Social Insurance. The insurance contribution is based on the employee’s basic wage or average monthly earnings. Such contribution shall be made during the first 15 days of the month following the month in which the contributions become due.

Social security taxes currently apply to Omani employees only.

In accordance with the labor law (Royal Decree No. 35 of 2003 as amended), employers must pay an ESB
to their foreign employees. The ESB is calculated on an employee’s final wage and is paid according to the following guidelines:

- For the first three years of service, the equivalent of 15 days’ basic pay for each year worked
- For each subsequent year, the equivalent of one month’s basic pay

2.4 Special requirements for foreign nationals
Omani employers must pay a vocational training levy (VTL) for each of their expatriate employees, including shipping crew and staff on the sea. The VTL rate is RO200 (US$520) once every two years for each expatriate employee.

For foreign workers, ESBs are computed for the first three years as 15 days’ basic salary for each completed year of service and 30 days thereafter.

2.4.1 Facilities for seafarers
The provisions of the Oman labor law regarding rules and regulations between employer and employee also apply to seafarers. The general incentives available to any employee in Oman (e.g., social security contributions, life insurance, and working hours) are also available to seafarers. Any additional incentives provided to the seafarer beyond the Oman labor law shall be considered in settling the seafarer’s account on termination of employment.

3. Corporate structure

3.1 Legal structure for shipping activities
The most commonly used legal structure for maritime companies is established for sole purpose of engaging in maritime activities provided under Maritime Law. The maritime company shall be subject to the provisions to joint stock companies.

As per the Commercial Companies Law, the maritime company is a joint stock company, i.e. SAOG and SAOC, established for the purpose of engaging in maritime activities.

3.2 Taxation of profit distribution
Oman does not impose any withholding tax on dividends distributed by Omani shipping companies to its shareholders from profits that are tax-exempt.

4. Grants and incentives

4.1 Specific and general subsidies available to shipping companies
As described in section 1.1 above, corporate tax exemption is available to Omani shipping companies with respect to shipping activities carried out within and outside Oman.

Foreign shipping companies are eligible for tax exemption of income from carrying on shipping activity in Oman, provided reciprocal treatment is available to an Omani company in the country in which the foreign person is incorporated or where the effective management and control is exercised.

4.2 Maritime aids to navigation
Pursuant to Royal Decree 81/2003, the Ministry of Transport and Communications (MoTC) signed a concession agreement with the Arabian Maritime and Navigation Aids Services LLC (AMNAS) related to maritime navigational guidance in the Omani territorial waters.

Under this agreement, this company shall carry out the installation and maintenance of navigational aids, such as the navigational buoys and beacons at the ports’ entrances and on the breakwaters, including new ports and sea/coastal projects.
4.3 Major changes in shipping subsidy legislation anticipated in the near future
The maritime law is promulgated in Oman by Royal Decree 35/1981.

5. General information

5.1 Powers of the Directorate General of Maritime Affairs in Oman
The Directorate General of Maritime Affairs regulates navigation and maritime transport activities in the maritime areas under the sovereignty and authority of the Sultanate of Oman. The directorate also controls vessels flying the flag of Oman, in accordance with regulations set out under the maritime law of Oman and the Law for Regulation of Navigation in the Omani territorial waters.
In addition, the Directorate examines the need for joining various international and regional maritime conventions, treaties and codes, and effectuates the maritime conventions already joined by Oman.
The Directorate also administers compliance with the requirements of the SOLAS, MARPOL and ISPS Code.

5.2 Infrastructure

5.2.1 Major ports
There are eight major ports of Oman:
- Port Sultan Qaboos
- Port of Salalah
- Port of Sohar
- Port of Khasab
- Port of Shinas
- Port of Duqm
- Mina Al Fahal
- Qalhat LNG

5.2.2 Port facilities
The following facilities are available:
- Maintenance and repair
- Docking
- Storage
- Cranes for every size of vessel

5.2.3 Support services for the shipping industry
The following support services for the shipping industry are available:
- Banks with a shipping desk
- Consulting firms specializing in shipping
- Maritime law services
- Insurance brokers for the shipping industry

5.2.4 Maritime education
Maritime education is available at the International Maritime College of Oman.

5.2.5 State Port Control
Oman is a member of the Riyadh Memorandum of Understanding (MoU) and the Indian Ocean Memorandum of Understanding for the State Port Control. As per the MoU, the information and data have been exchanged with regard to ships having been inspected by the member states of those MoU, noting that the location of the Secretariat and Information Center for the Riyadh MoU is in Oman.
5.2.6 Ships and ports security
The Directorate issues Certificates of Compliance for ships and ports in accordance with the ISPS Code, having carried out field visits to the port facilities of all the requesting agencies and examined the security and contingency plans of each port. Such certificates are renewed annually and periodically.

5.2.7 Implementation of the International Safety Management (ISM) Code
Compliance with the requirements of the ISM Code by shipping companies is required in Oman. The Oman government issues two documents for shipping companies that comply with the ISM, namely the document of compliance (DOC) and the safety management certificate (SMC). These documents are issued after the shipping companies pass an audit performed by the appropriate authority.

6. Registration

6.1 Registration of vessels and seagoing units under the Omani flag
The Directorate General of Maritime Affairs registers and inspects Omani and foreign ships of various kinds (e.g., fishing, tourism, excursion, service, logistics, tug, oil and gas tankers, ferries) through the offices of ships registration available in Port Sultan Qaboos, Port of Salalah and Port Sur.

6.2 Ships flying Omani flag
Every vessel enjoying the Omani nationality should fly the Omani flag.

6.3 Registration of Omani vessels
The registration of ships is governed by the Maritime Law. Under Section 10 of the Maritime Law, a vessel is only registered as an Omani ship if it is owned by an Omani or by an Omani company.

Abandoned vessels seized by vessels with Omani nationality or vessels confiscated due to violation of laws in Oman are also considered to have Omani nationality.

6.4 Ship registration procedure
Every Omani vessel is required to register in the competent maritime authority of Oman. The authority shall also decide the ship's tonnage, and a certificate for tonnage is issued to the owner of the vessel by the maritime authority.

An application for registration is required to be submitted within 30 days from the date of building or ownership of the vessel. Alternatively, per Article 49, an application for registration is required to be submitted to the maritime authority within 30 days from the date the vessel entered an Omani port if it was built or taken possession of abroad.

The owner should submit an application to the Ships Registration section at port, along with the following documents:

- Application letter for registering the ship/boat
- Purchase bill
- Cancellation certificate of the registered craft from the country where it was bought and registered
- Certificate of origin, if any
- Customs statement
- Authentication of the purchase bill from the Omani embassy or consulate at the country of sale
- New photos of the craft after fixing the proposed name and photos of the safety equipment
- A copy of the owner's passport/identity card
- A copy of the captain's passport/identity card and a certificate of experience

There are separate requirements for fishing vessels and pleasure boats.

Boats and installations belonging to the vessel and enlisted in the vessel's inventory list are exempted
The navigation license and safety certificate are granted upon the application submitted to the maritime authority. The navigation license is valid for one year and can be renewable upon satisfaction of certain conditions.

Upon registration, every vessel is required to carry official documents, including the certificate of registration, crew log, navigation license for the current year, health certificate and declaration of cargo while on the voyage.

The electronic ships registration system recently introduced facilitates for the process of issuing ship certificates relating to navigational licenses and permits, certificates of competency to seafarers, navigational warnings, certificates of safe manning of ships and other documents.

6.5 **Foreign vessels entering Oman territorial waters**
Foreign vessels must carry documents as prescribed under the laws of their respective countries, in addition to licenses and certificates of safety compliance under international conventions.

6.6 **Navigational warnings**
The Directorate General of Maritime Affairs also organizes the navigation of vessels in and out of the ports of Oman and in the territorial sea. This is carried out by issuing maritime navigational warnings defining the safe waterways/sailing prohibited areas and guiding ships passing through the territorial waters.

### 7. Income tax law in Oman overview

A new tax law, effective from tax year 2010, was published in the official gazette on 1 June 2009. The Executive Regulations (ER) governing the income tax law was issued by Ministerial Decision 30/2012 on 28 January 2012. The provisions of the ER took effect from tax year 2012, which applied to all financial years ending after 1 January 2012.

#### A. At a glance

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<td>Capital gains tax rate (%)</td>
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<td>Branch tax rate (%)</td>
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(a) See Section 7.1.
(b) This tax is imposed on certain payments to foreign persons who do not have a permanent establishment in Oman or where there are permanent establishments, the subject income is not forming part of permanent establishment income in Oman Companies or permanent establishments in Oman that pay to foreign companies or permanent establishments, as set out above, items must deduct tax at the source and remit it to the Secretary General of Taxation.

#### 7.1 Taxes on corporate income and gains

##### 7.1.1 Corporate income tax
Companies, which include Omani companies, partnerships, joint ventures and sole proprietorships,
and permanent establishments of foreign companies, are subject to Omani income tax. A permanent establishment is defined in the law as place of sale, place of management, branch, office, factory or workshop, mine, quarry, building site, place of construction or assembly point. In addition, a permanent establishment is created for a foreign person providing consultancy or other services in Oman through employees or designated agents for periods of not less than 90 days, in aggregate, in any 12-month period.

Omani companies and Omani sole proprietorships are subject to tax on their global income (income accrued from a source outside Oman). However, foreign tax credit limited to Oman’s tax rate of 12% is available against the tax payable in Oman.

7.1.2 Rates of corporate income tax
Companies registered in Oman, regardless of the extent of foreign participation, and permanent establishments of foreign companies are subject to tax at a rate of 0% on their first RO 30,000 of taxable income, and at a rate of 12% on their taxable income in excess of RO 30,000.

Oil exploration and production companies are taxed at a rate of 55% and are usually covered by special rules contained in concession agreements.

No income can be exempt from tax unless provided under the law or by a Royal Decree.

7.1.3 Capital gains
No special rules apply to capital gains. Capital gains are taxed as part of regular business income at the rates set out in rates of corporate income tax.

The tax law provides that profits and gains derived from disposals of all assets, including disposals of goodwill, trade names or trademarks with respect to all or part of a business, are included as deemed income.

Gains derived from the sale of investments and securities listed on the Muscat Securities Market (MSM) are exempt from tax.

7.1.4 Withholding tax
Withholding tax at a rate of 10% of gross payments is imposed on certain gross payments made to foreign companies, including the following:

- Royalties (see below)
- Consideration for research and development
- Management fees
- Consideration for the use of or right to use computer software

Entities in Oman, including permanent establishments, are responsible for deducting and remitting tax to the government. The tax is final. Foreign persons do not have any further filing or other obligations with respect to that income.

If a foreign company has a permanent establishment in Oman, and the permanent establishment is unconnected to the income that is subject to withholding tax, withholding tax in Oman applies to such payments.

The term “royalties” includes payments for the use of or right to use software, intellectual property rights, patents, trademarks, drawings, equipment rentals, consideration for information concerning industrial, commercial or scientific experience, and concessions involving minerals.

7.2 Administration
7.2.1 General
A taxpayer is required to register with the tax department by filing a Form for Declaration of Business Particulars within a period of three months after the date of incorporation or commencement of activities. Any changes to the registration information must be communicated within two months. The accounting period begins on the date of commencement of business for joint ventures and permanent establishments. For companies, the start date is the date of registration or incorporation. The first accounting period may be
less than 12 months but cannot exceed 18 months. The accounting period may be changed with the approval of the Secretary General for Taxation.

The books of account are required to be maintained for a period of 10 years. Permission is required for maintaining books of accounts in a foreign currency. In such a case, income must be converted at exchange rates prevailing on the last day of the accounting year. The accrual method of accounting must be used.

The term “Principal Officer” is defined for various entities. If a permanent establishment carries on an activity in Oman through a dependent agent, the agent is treated as the Principal Officer. If a sole proprietor or owner of a permanent establishment is outside Oman, the individual or permanent establishment must designate a Principal Officer to comply with the obligations under the law. Such Principal Officer may not be absent from Oman for more than 90 days in a tax year. Partners of joint ventures are jointly and severally liable for taxes of the joint venture.

7.2.2 Returns

Provisional returns of income must be filed within three months after the year-end. A final return of income, together with audited financial statements, must be filed within six months after the end of the accounting year.

7.2.3 Assessments

Assessments must be issued within five years from the end of the year in which tax returns are filed. If no assessment is issued within a period of five years, such assessments are deemed to have been issued (that is, tax returns are accepted as filed).

Corrections of assessments as a result of obvious errors are allowed. Such corrections must be made within five years after the year of issuance of the original assessment.

If a tax return is not submitted for a tax year, the time limit for making an assessment is 10 years from the end of the tax year for which the tax return is due.

Assessed tax, reduced by tax already paid, must be paid within 30 days from the date of issuance of the assessment. A delay results in a delay fine of 1% per month on taxes due for the period of delay. If a refund is assessed, the refund must be claimed within five years after the date of assessment. Assessments are also made with respect to withholding tax.

7.2.4 Statutory periods of limitation

For the period of limitation related to assessments, see 7.2.3.

The government’s right to collect taxes expires after seven years from the date taxes became due and payable, unless the tax authority initiates action to recover taxes.

7.2.5 Appellate processes

An objection against the assessment order must be filed with the Secretary General for Taxation. Other appellate procedures are an appeal with the Tax Committee, a tax suit filed in the primary court, an appeal to the appellate court, and finally a case before the Supreme Court.

The objection against an assessment must be filed within 45 days from the date of serving of the assessment order. An appeal must be submitted within 45 days from the date of the decision on the objection or the date of expiration of the specified period for deciding on the objection if no decision is issued.

The time limit for consideration of the objection is five months, with an extension of an additional five months. If no decision is issued, an implied rejection of the objection is deemed to occur.

A taxpayer can seek extension of time for the payment of disputed tax. However, the undisputed tax must be paid within 30 days from the date of assessment.

7.2.6 Dividends

Dividends received by Omani companies, permanent establishments of foreign companies or Omani sole
proprietors from Omani companies are exempt from tax. However, foreign dividends received by Omani companies are subject to tax, with a tax credit for overseas withholding tax as set out in the paragraph 7.2.7.

7.2.7 Foreign tax relief
A foreign tax credit limited to Oman's tax rate of 12% is available against the tax payable in Oman on overseas income of Omani companies and sole proprietors.

7.3 Miscellaneous matters

7.3.1 Anti-avoidance legislation
If a company carries out a transaction with a related party that is intended to reduce the company's taxable income, the income arising from the transaction is deemed to be the income that would have arisen had the parties been dealing at arm's length.

For transactions between related parties that are not at arm's length, certain arrangements and terms may be ignored by the tax authorities if such arrangements or terms result in lower taxable income or higher losses.

The tax authorities may make adjustments if the principal purpose of a transaction is to avoid taxation even if the transaction is between unrelated parties.

7.3.2 Thin-capitalization rules
Thin-capitalization rules are imposed based on the Executive Regulations issued.

7.3.3 Transfer pricing
The tax law has introduced the concept of transfer-pricing, by seeking to restrict any measures that may be taken by related parties for avoidance of tax through transactions entered into between them.
Panama

1. Tax

1.1 Tax facilities for shipping companies

The Panamanian tax system is based on the “territorial principle” whereby all income, from any source, derived within Panamanian territory is subject to income tax. Article 694 of the Panamanian Tax Code states:

“The object of this tax is any taxable income generated from any source, within the territory of the Republic of Panama, regardless of where the income is received. Taxpayer, as defined herein, is any legal entity or individual, domiciled or non-domiciled that receives taxable income.”

Pursuant to Article 9 of Executive Decree No. 170 of 1993, any income generated within Panama, irrespective of where it is received and the domicile or residence of the taxpayer, is subject to income tax. The corporate tax rate is 25%.

Income is deemed derived within the country when it is generated by civil, commercial, industrial, professional and similar activities and any type of services carried out within the Panamanian territory.

Article Section 694, paragraph 2 of the Fiscal Code indicates several types of activities which, even when they are carried out within the Panamanian territory, are not considered to generate Panamanian source income, and consequently, would not be subject to local taxation. Such activities include the following:

- “a. Billing, from an office set up in Panama, sales of merchandise or products for an amount greater for which they were purchased, provided that said merchandise or products are transferred abroad”
- “b. Directing, from an office set up in Panama, transactions that take place or produce effects abroad”
- “c. Distributing dividends or participations of legal entities that do not require the Notice of Operation or do not produce taxable income in PA [Panama], when said dividends or participations derive from income not generated within the Panamanian Territory, including income derived from the activities mentioned in bullets “a.” and “b.” above”

According to Article 694, paragraph 1-c of the Fiscal Code, income earned by companies engaged in international transport services from freight, cargo, tickets, and other services, is considered Panamanian source income (and consequently tax exempt) when Panama is their origin or final destination, regardless of the company’s place of incorporation or domicile.

However, the said article provides that the following income is exempt:

- Income earned from freight, tickets and services provided to passengers or cargo are in transit through Panama
- Income derived from maritime tickets and other services when they are obtained by an international company that operates cruise ships whose home port is located in Panama

Article 10 of Executive Decree 170 provides that income from the following activities is not considered Panamanian source income:

- Income generated by persons or corporations located overseas, receiving payment for goods or services financed, contracted or executed completely outside of the national territory in favor of taxpayers, such as hotels, international vehicle lessors, repairs of naval and air vessels dedicated to international exploitation, freight or other charges made by shipping agencies on behalf of international naval line or international tourism operators and any other international business activities

Taxpayers dedicated to these international businesses must certify the following before the Tax Administration:

- That the goods or services are of international origin, and for services, that these were provided fully overseas (payment or contract not being sufficient proof of this condition)
- That the price paid for the good or service received by the taxpayer is reasonable in relation to the value of the good or service rendered
• That the international business in question is conducted inside the Republic of Panama and that its client’s portfolio is at least 40% foreigners (an exception to this requirement is cargo of merchandise going toward national territory).

Moreover, under Article 701 (m) of the Fiscal Code, companies engaged in international transport, referred to in Article 694, paragraph 1-c, explained above, may apply as income tax credit the income tax paid abroad over income from freight, cargo, tickets and other services that are also considered taxable income in Panama. These credits may not be carried forward or returned to the taxpayer.

Nevertheless, under Article 701 (n) of the Fiscal Code, companies engaged in international maritime transport services may choose to consider the 3% of their gross income from Panamanian source as net taxable income, or follow the general rules of the Fiscal Code. For that purpose, the gross income will be determined based on the kilometers or miles traveled within Panama from the outside and vice versa. It should be noted that the territory of Panama extends to a distance of 200 nautical miles out from its coastal baseline.

Article 701 (n) applies as an alternative method if the income of the international maritime transport services is not exempt. If the company is not considered fiscal resident in Panama, the same percentage (3%) will apply to determine the taxable basis of the withholding tax.

Exempt income

Income earned from international maritime commerce carried out by merchant ships legally registered in Panama, even if the transportation contracts are signed in Panama, is exempt, except when Panama is the origin or final destination of the service.

According to Section 1057 (v) of the Fiscal Code, the following goods and services are exempt from value-added tax (VAT):

• Freight and transport of cargo, by air, sea or land, as well transport of individuals by sea or land
• Loading, unloading, transfer within or between ports, logistics and auxiliary services provided to cargo in ports, and in free trade zones or special economic areas, as well as repairs, maintenance and cleaning services provided within the territorial waters to ships in transit

Article 154 of the Fiscal Code indicates that, for all legal effects, it is understood that logistic services are those that seek to facilitate that goods in general arrive to the various clients, which includes transportation, distribution, storage, handling and repackaging of goods, information management, invoicing services, as well as logistics and foreign commerce advisory.

1.2 Tax facilities for seafarers

There are no special tax facilities for seafarers in Panama.

1.3 Tax treaties

At the moment, 15 double tax treaties signed by Panama are in effect. Those are treaties signed with Barbados, Czech Republic, France, Ireland, Israel, Korea (South), Luxembourg, Mexico, the Netherlands, Portugal, Qatar, Singapore, Spain, United Arab Emirates and United Kingdom.

Vessel agreements:

• United States: agreement to exempt from income tax on a basis of reciprocity income derived by residents of the other nation for the international exploitation of ships and aircraft
• The Netherlands: treaty to avoid the double taxation for companies that operate ships or aircraft in international traffic
• Cyprus: agreement to exempt the income tax or any other tax that taxes the income perceived from the exploitation of ships on the basis of reciprocity

1.4 Freight taxes

Receipts obtained by international transportation companies that relate to freight, passengers, cargo and similar services between Panama and foreign countries or vice versa are considered Panamanian source
income, regardless of where companies are constituted and domiciled. Although its way of computing is similar to a freight tax, this is an income tax.

Companies engaged in transportation may choose to be taxed either on the basis of their ordinary income, or on the basis of considering 3% of gross freight received from the operations set out in the preceding paragraph as net taxable income. For the purpose of the latter option, gross freight income is calculated on the basis of how many miles or kilometers are covered within the territory of Panama.

In either of the above options, income tax will be assessed at the corporate tax rate of 25%. Operating cost and expenses can be deducted if the international transportation company chooses to be taxed on the basis of its ordinary income. If withholding tax applies, it is possible to file a Panamanian tax return for that revenue, so as to deduct expenses and obtain a credit or refund for part of the sums that have been paid as income tax. No deduction of expenses will be allowed if a company decides to apply the 3% gross freight rule.

1.5 Special vessel registration benefits for the shipowner

Depending on the ship's gross registered tonnage (GRT) and age, shipowners may be entitled up to a 50% discount on regulatory and consular rates and up to a 30% annual tax. Shipowners may also be entitled to a 20% discount for registering 5 to 15 vessels, a 35% discount will be granted for registering 16 to 50 vessels, and a 60% discount for registering more than 50 vessels in Panama (Law 57 of 2008 and Resolution ADM 016-09).

Shipowners may also be entitled to additional discounts on regulatory and consular rates and on annual tax for ships that meet the requirements established by Resolution No. 106-136-DGMM of September 2013.

1.6 Major changes to tax law anticipated in the near future

There are no major changes anticipated in the near future.

1.7 Tonnage tax regime

Panama does not have a tonnage tax regime.

2. Human capital

2.1 Formalities/regulations for employing personnel

Shipping companies are free to choose the crew and officers from any nationality.

In order to comply with the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW), all crew members and officers have to be duly certified by the Panamanian Maritime Administration (the Administration). All enrollment contracts must be executed in writing by the shipowner or its representative and the crew member. A copy of the contract shall be annexed to the crew list.

2.2 National labor law

The Panamanian Maritime Labour law and Executive Decree No. 41 of 22 February 2013, which regulates the Maritime Labour Convention of 2006, (applicable as of 27 February 2013) applies to a seafarer/crew member or sailor meaning any person employed, hired or working in any position aboard a ship (Article 1 of Executive Decree No. 41 of 22 February 2013).

2.3 Collective labor law

The contract of employment or articles of agreement of the crew could be held for a limited term, an unlimited term or per trip.

This contract may be individual or collective, transcribed or attached to the role of crew, so that the whole crew appears duly.

The date of termination of the contract is determined by the type of contract:
1. For a limited-term contract, the date is set forth therein.
2. For a contract for travel, the port of destination and the time that must elapse after the arrival to ensure that the person concerned can be licensed; if the contract is set for a specific trip, the contract should end in the port of destination.
3. For unlimited term contracts, the contract should include conditions that will enable each party to finish it as well as the term of notice.

Minimum wage and other obliged payments

Before the entry into force of the Decree Law 8 of 26 February 1998, “which regulates work at sea and on waterways and enacting other provisions,” labor relations on board vessels of Panamanian registry were governed by the labor code of the Republic of Panama.

As of the entry into force of Decree Law 8 of 1998, all conflict and maritime labor is regulated by such provision provided that the parties may not agree in other labor legislation applicable to the case.

Neither the labor code nor Decree Law 8 of 1998 provides any rule on the salaries rate for seafarers who work on ships under the Panamanian flag.

In the majority of cases, the following parameters are taken into consideration:

- Place of recruitment and agreed currency
- Nationality of the owner, shipper or charterer
- Agreement between the parties
- Manners and customs of maritime trade

The salary must be paid as of the day on which the crew member begins his/her service on board. However, if a crew member has to travel from the recruiting place to reach the vessel, the wage shall start counting as of the start of said trip. The salary will be determined either beginning at the start of the trip or on the date specified in the contract.

The salary will be paid in the currency agreed on in the contract of employment.

The wages of the crew may only be paid after the following deductions and discounts have been applied:

- The payment of debts that a crew member acquires with the shipowner for advanced salaries or payments made in excess, but under no circumstance shall deductions for this reason be above 15% of the wage earned in the corresponding payment period
- The payment of installments for the purchase of a home to the selling entity or a credit institution, or the amount to be paid as rent for his/her home, for up to 30% of the wage earned in the corresponding payment period
- Child support payments ruled and ordered by a competent authority
- Regular or special union fees to seafarers’ organizations
- The attachment or embargo on 15% of the excess above the non-attachable amount of the wage

Total deductions and deductions authorized in any case should not exceed 50% of the basic wage of the crew, except for family allowance (e.g., child support).

Rules regarding working hours

Ordinary hours of work must comprise a maximum of eight daily hours, with one weekly day of rest, and those days of rest that correspond to official holidays, without detriment to any other more favorable rules established by collective agreements.

Working hours in excess of the daily limits prescribed in the contract are deemed overtime hours for which the worker is entitled to compensation fixed by collective or individual contracts, which in no case will be less than the basic hourly wage rate increased by 25%.

The arrangement of national/health insurance

Professional risks are those accidents suffered by seafarers because of the work done on behalf of a shipowner.
The Republic of Panama shall provide all crew members who reside regularly in its territory and the persons under their care access to protection in matters of social security, pursuant to the national laws and regulations in force.

Every foreign individual working for a company established in Panama is subject to social security withholdings and educational insurance tax withholdings. These payments are shared between the employer and employee, and remitted by the employer on a monthly basis to the appropriate office.

- Employees pay 9.75% of their salaries for social security and 1.25% for educational tax.
- Employers contribute 12.25% of the salaries paid to the employees for social security and 1.5% for educational tax. In addition, employers pay workers’ compensation insurance at a rate that ranges from 0.98% to 5.6% of the salaries, depending on the type of business in which the employer is engaged.

Social security and educational taxes are levied on salaries and on most other remuneration paid to employees. No ceiling applies to the amount of remuneration subject to these taxes. Remuneration subject to social security includes all compensation, whether monetary or non-monetary, and benefits in-kind given to or provided for an employee or family member.

**Medical care**

Medical care on board vessels and ashore offered on account of shipowners to the crew working on board Panamanian-flagged vessels must include:

- The supply of necessary medicines, the necessary medical equipment and services for the diagnosis and treatment as well as all medical information and advice
- The right to visit, without delay, a qualified doctor or dentist on ports of call, when feasible
- Health promotion and sanitary education programs, as preventive measures
- Hospitalization services when necessary

**2.4 Treaties regarding social security contributions**

No treaties providing relief from social security contributions have been concluded.

**2.5 Advantages and disadvantages of flying the Panamanian flag**

The procedure for registration of vessels under the Panamanian flag is very simple and straightforward.

The general advantages include:

- Any person, natural or legal, regardless of nationality and place of origin, is eligible to register ships under the Panamanian flag.
- The registration procedure allows the registration of a ship in a period of eight hours, provided that the ship complies with all the requirements.
- Panama has a reliable system of naval mortgages that have the support of national and international banking.
- Panama offices operate 24 hours a day to accommodate Asian and European customers despite the time difference.
- Panama has strategic representation in 60 countries through the merchant navy consulates.
- Panama has a high-quality system.
- Panama is in strict compliance with the international conventions on maritime safety, the International GNSS Service (IGS), STCW 78/95 and others.
- Panama permits exemption from taxes on gains from the activity undertaken.
- Resolution ADM 016-09 of the Panamanian Maritime Authority provides discounts over the annual tax, consular rate and regulatory rates depending on the age and capacity of the vessel. Also, discounts per number of ships are granted by Law 57 of 2008 (see section 1.5 Special vessel registration benefits for the shipowner). Shipowners may also be entitled to additional discounts provided by Resolution No. 106-136-DGMM of September 2013.
- Shipbuilders and operators of ships under the Panamanian flag have access to the system referred to in
the law of corporations.

- There are no minimum tonnage requirements; however, ships older than 20 years will have to pass a special inspection by a Panamanian-authorized inspector to obtain a statutory patent.
- The owners of vessels who wish to transfer to the Panamanian flag will not be re-inspected if the ships possess a certificate of security and valid tonnage issued by a recognized organization or society. However, at the time of registration, a recognized entity shall issue new certificates on behalf of the Panamanian Administration.

Since 1977, the representative office of the maritime authority of Panama in New York has provided assistance and advice in technical matters relating to the Panamanian registry and security to all users with promptness and efficiency.

3. Corporate structure

3.1 Most commonly used legal structure(s) for shipping activities

Shipping activities are generally carried out through a corporation or limited liability partnership. Both vehicles provide limited responsibility and are in principle opaque (subject to tax) for Panamanian tax purposes.

Income tax liability will be assessed at a flat 25% rate on the net taxable income (difference or balance that results upon deducting from gross income or general earnings the foreign and exempted income, and deductible expenditures, costs and expenses). Taxable income/revenue includes all income derived from business activities in Panama less expenses incurred wholly and exclusively in the production of assessable income or the conservation of its source.

Taxpayers with annual taxable income greater than USD1.5 million are required by law to calculate the tax using two methods and pay the higher of the amounts calculated under these methods. This calculation must be included in their annual income tax return. The following are the two methods:

- Applying the corresponding tax rate to net taxable income
- Applying the corresponding tax rate to 4.67% of total income (CAIR)

However, if a taxpayer applies the alternative method and (i) the payment of taxes results in a loss or (ii) if the taxpayer’s effective tax rate exceeds 25% for the respective fiscal year, the taxpayer may submit a waiver request for the application of CAIR for a period of up to three years.

3.2 Taxation of profit distribution

Dividends distributed from earnings arising out of Panamanian source income are taxable at the rate of 10% in the case of dividends derived from nominal registered shares and 20% in the case of dividends derived from bearer shares. This withholding tax applies regardless of whether the dividends are paid to legal entities or individuals, resident or nonresident. When dividends are distributed from earnings arising from non-Panamanian source income, the applicable withholding rate is 5%.

If a corporation does not distribute dividends in a given period, or if the amount distributed is less than 40% of the period’s net taxable income less income tax paid thereon, the difference is subject to a deemed dividend tax of 4% (2% if the earnings derive from non-Panamanian source income). The deemed dividend tax paid in a given period can be used as a credit to offset actual dividend withholding taxes due in subsequent periods.

For companies operating in Panama that require a Notice of Operations or that generate Panamanian source income, the rate of 5% applies to dividends distributed from:

- Foreign source income
- Export operations
- Panamanian source income exempt from income tax, as listed in sections f and I of Article 708 of the Tax Code
Tax reform 2015

Tax reform took place (law 27 of 4 May 2015), which amended some regulations and included new articles in the Fiscal Code. Moreover, on 17 June 2015, Panama approved Executive Decree No. 263 (the Decree), which amends Executive Decree No. 170 of 1993 (the Income Tax Regulations) and addresses certain concerns that arose as a result of the aforementioned reform of the Fiscal Code.

The tax reform introduced a new article 733 – A to the Fiscal Code. As a result of this article, withholding tax exemptions granted by special laws (such as Multinational Companies Headquarters (SEM) regime, Panama Pacific, etc.) related to the payment of dividend, interest, royalties, professional fees and similar payments made from a Panamanian entity to an entity located abroad will only apply if the recipient cannot claim a tax credit in the jurisdiction of its residence. The recipient must have a formal opinion from an independent tax expert of his or her jurisdiction proving that the foreign entity cannot claim a tax credit in its jurisdiction.

4. Grants and incentives

4.1 Specific and/or general subsidies available to shipping companies
No subsidies or special incentives are available.

4.2 Investment incentives for shipping companies and the shipbuilding industry
No investment incentives are available.

4.3 Special incentives for environmental awareness
There are no special incentives for environmental awareness in Panama.

4.4 Advantages and disadvantages of flying the Panamanian flag
With the largest registration of ships at the global level, the Panamanian registry offers many advantages, which can be of considerable interest to the shipowners who wish to register their vessels under the flag of Panama.

Competitive costs
The costs of registering a ship in Panama are considerably lower than in other jurisdictions.

No minimum tonnage requirement
There is no minimum tonnage required for the registration of a vessel in Panama.

All nationalities accepted
There are no restrictions regarding nationality, which means that any person or company may register a vessel under the Panamanian flag.

Dual registration is possible
Vessels registered under the Panama flag that are under charter to a company incorporated in another country may also be simultaneously registered in that country.

Advantage of a preliminary registration of title/mortgage
Preliminary registration of title/mortgage is easily accepted by US, European and worldwide banks as providing satisfactory security.

Major class survey societies accepted
All major class societies and members of the International Association of Classification Societies Ltd. (IACS) are authorized by Panama to survey Panamanian vessels.

Tax advantages
Income derived by vessels engaged in international trade is not taxed by the Republic of Panama, except for
the freight whose final destination or origin is a Panamanian port. Vessels under construction can obtain provisional registration. Vessels under construction may also apply for the provisional registration and radio call letters. 

Advantages for pleasure vessels (yachts, boats, sailing vessels)

There is a sole enrollment charge of US$1,500 for yachts; however, if the yacht is owned by a Panamanian natural citizen, Panamanian company or a Panama foundation, this charge is US$1,000.

4.5 Major changes in shipping subsidy legislation anticipated in the near future

There are no major changes anticipated in the near future.

5. General information

5.1 Infrastructure

The shipping industry is considered very important to the Panamanian economy; since 1994, Panama has been the world's leading register of ships.

5.1.1 Major ports

The geographical location of Panama means that it has ports in both the Pacific and Atlantic oceans, which are separated by land by a distance of approximately 75 kilometers, and linked by the Panama Canal. This makes them an important crossing point between the most important shipping routes.

Panama is on its way to becoming the main center of transshipment of containers in Latin America and the Caribbean, specifically in the area of Coco Solo North, which is experiencing a sustained and growing port development.

During the past 10 years, the evolution of port activities has presented its highest level of growth and development. This fast expansion is projected with the privatization of major port terminals and the construction of new terminals, and is reflected primarily in the number of ships berthed and the containerized cargo volume reached in recent years.

Therefore, the Manzanillo International Terminal, Colon Container Terminal and Cristobal are the main ports of Latin America.

Panamanian maritime access

The port system of Panama comprises 26 ports of which 19 are administered by the maritime authority of Panama through the General Directorate of ports and maritime auxiliary industries, mainly small ports that provide service to international transport and cabotage. The remaining seven ports are managed and operated by private companies under the control of this General Directorate, through the captaincies of ports located in the Atlantic and the Pacific.

The ports are classified into three categories according to the nature of their operations:

- Specialized ports
- Port complexes
- General cargo ports

Currently, the terminal ports – Balboa on the Pacific side and Cristobal on the Atlantic – are under the administration of Panama Ports Company, a member of the group Hutchison Port Holding (HPH).

PSA Panama International Terminal is a new port terminal built at the Pacific western-side entrance of the canal in the former U.S. Rodman naval base by a Singapore government-owned company. The terminal began operations in December 2010 by receiving supplies and iron products for the Canal expansion. Their containerized operations began formally in 2012.

For more than two years, the Authority of the Panama Canal (ACP) has been developing a series of studies...
and evaluations of the project for the design and construction of a new port in the Corozal area, the Corozal port. The Corozal terminal (port) will be located at the Canal entrance of the Pacific. Moreover, the Corozal port will have the function of a transshipment port. The ACP started a public bidding process to grant a concession to a company that will be in charge of the design, construction, equipment and operation of the Corozal port. To date, the bidding process is still ongoing; however, according to official sources, it is expected that the construction work of the port should start in 2016.

Several newer ports are under the operation and administration of private enterprise:

- Since 1997, CCT, an affiliate of the Evergreen Group, has operated Colon Container Terminal, located on the Atlantic side at the Manzanillo Bay, Coco Solo North, City of Colon.
- Petroterminales de Panama (PTP) is the administrator-operator of the ports of Charco Azul in Chiriquí and Chiriquí Grande, Bocas del Toro.
- Since 1994, MIT, a wholly owned subsidiary of Stevedoring Services of America (SSA), has operated Manzanillo International Terminal, located at the Manzanillo Bay, Coco Solo North, City of Colon. Another important terminal on the Atlantic side is Colon Port Terminal, at Coco Solo South, City of Colon. The terminal was granted in concession to a Panamanian corporation in 1997.

5.1.2 Port facilities

- Maintenance and repair facilities
- Docking facilities
- Storage facilities
- Cranes for every size of vessel

5.1.3 Support services for the shipping industry

- Banks with a shipping desk
- Consulting firms specialized in shipping
- Maritime law services
- Insurance brokers for the shipping industry

5.1.4 Maritime education

The major maritime educational institution in Panama is the Universidad Marítima Internacional de Panamá (Panamanian International Maritime University).

5.2 Safety and environmental issues

5.2.1 Implementation of the International Safety Management Code

Compliance with the International Safety Management (ISM) Code is mandatory for companies operating large vessels in international trade.

Under the ISM Code, a company must be declared to the Administration. In accordance with Section 1.1.2 of IMO Resolution A.741 (18) of the ISM Code, “a Company means the Owners of a ship or any organization or person such as the Manager, or the Bareboat Charters, who has assumed the responsibility for operation of the ship from the ship Owners and who on assuming such responsibility has agreed to take over all the duties and responsibility imposed by the Code.”

In order to comply with the international technical certificates, the following organizations have been entrusted with the survey of ships and issuance of relevant convention certificates on behalf of the Republic of Panama:

1. American Bureau of Shipping
2. Bureau Veritas
3. China Corporation Register of Shipping
4. China Classification Society
5. Det Norske Veritas
6. Germanischer Lloyd
7. Global Shipping Bureau
8. Hellenic Register of Shipping
9. Indian Register of Shipping
10. Intermaritime Certification Services, SA
11. International Maritime Register (Panama), Inc.
12. International Naval Survey Bureau (INSB)
13. International Register of Shipping (Panama), Inc.
14. Isthmus Bureau of Shipping
15. Korean Register of Shipping
16. Lloyd’s Register of Shipping
17. Macosnar Corporation
18. National Shipping Adjuster, Inc.
19. Nippon Kaiji Kyokai
20. Overseas Marine Certification Service, Inc.
21. Panama Bureau of Shipping
22. Panama Register Corporation
23. Panama Marine Survey & Certification Services, Inc.
24. Panama Maritime Documentation Services, Inc.
25. Panama Shipping Registrar, Inc.
26. Phoenix Register of Shipping, SA
27. Polski Rejestr Statków
28. Qualitas Register of Shipping, SA
29. Registro Italiano Navale
30. Russian Maritime Register of Shipping
31. Universal Shipping Bureau, Inc.

Each recognized organization (RO) is authorized to carry out surveys and to issue specific technical certificates according to the national and international regulations adopted by Panama. ROs’ specific technical certificates authorization list is available in this office at the owner’s or operator’s request.

5.2.2 Safety rules regarding manning

Strict reference is made to Chapter V, Regulation 13 of the International Convention for the Safety of Life at Sea (SOLAS), which mandates that each contracting government undertakes to maintain and, if necessary, to adopt measures for the purpose of ensuring that, from the point of view of safety of life at sea, all ships shall be sufficiently and efficiently manned.

Resolution 614-308-ALCN dated 31 December 1982 established the minimum safe manning required on board vessels of over 200 GRT.

Certificated survival craftsmen: every passenger vessel and every cargo vessel of 500 GRT and above shall carry a sufficient number of certificated survival craftsmen as determined by the Administration. The allocation of the survival craftsmen to each survival craft remains within the discretion of the Master.
The survival craftsmen must hold certificates of proficiency issued under the authority of an accepted administration. Also, examiners have been designated to examine the efficiency and competence of lifeboat men on Panamanian vessels. These examiners follow the U.S. Coast Guard requirements.

Resolution A-481 (XII) on Principles of Safe Manning, adopted by the IMO Assembly -Twelfth Session, urges all members of the organization to institute the Minimum Safe Manning Certificate. Based on the aforementioned, the Republic of Panama has instituted for vessels registered under its flag a Minimum Safe Manning Certificate, which should be on board every passenger and cargo vessel of more than 200 GRT.

### 5.2.3 Special regulations on safety and the environment


### 5.3. Registration

#### 5.3.1 Registration requirements

The procedure for registration of vessels under the Panamanian flag is very simple and straightforward. A vessel may request a provisional or a permanent ship registration.

**Conditions:**

- The owner of the vessel may be an individual or entity, either Panamanian or foreign, domiciled in Panama or elsewhere.
- There is no minimum tonnage requirement or age requirement.
- Vessels built more than 20 years before registering under the Panamanian flag must undergo an inspection. Vessels that may be registered under the Panamanian flag include crafts intended for transportation of passengers and cargo, pontoons, dredges, floating docks or other hulls made of wood, cement, iron, steel or mixed materials or other objects that are used or may be used in maritime commerce.
- It is possible to register a vessel that is under construction.
- It is possible to obtain a special type of registration for vessels on account of scrapping, delivery voyage or any other purpose of a provisional nature.
- It is possible to have dual registration of vessels, under certain circumstances, whereby a vessel registered under the Panamanian flag will be allowed to fly another flag as a special registry on account of a charter party arrangement. The opposite is also permissible.

**Required documents for provisional ship registration**

<table>
<thead>
<tr>
<th>Prescribed complement of lifeboat</th>
<th>Minimum number of certificated survival craftsmen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fewer than 41 persons</td>
<td>2</td>
</tr>
<tr>
<td>From 41 to 61 persons</td>
<td>3</td>
</tr>
<tr>
<td>From 62 to 85 persons</td>
<td>4</td>
</tr>
<tr>
<td>More than 85 persons</td>
<td>5</td>
</tr>
</tbody>
</table>
Requests for provisional ship registration may be submitted directly to the Directorate General of Merchant Marine in Panama City, Panama, or to any of the designated Merchant Marine Consulates of Panama abroad through the Public Key Infrastructure system with the following documentation attached:

- Original power of attorney (POA) granted by owners in order to register the vessel if the application is presented to the Directorate General of Merchant Marine in Panama City. When this document is issued abroad, the POA must be duly notarized, apostilled or authenticated by a Panamanian Consulate (in case the document is issued in a language other than Spanish it must also be officially translated into Spanish)
- Evidence/proof of ownership (original receipt of the sale) or of the intention to acquire ownership of the vessel
- Evidence/proof of payment of applicable taxes and fees (certificado de paz y salvo or tax clearance certificate)
- Any other additional requirement requested by the Directorate General of Merchant Marine

Upon successful completion with these requirements, a provisional Statutory Certificate of Registry and provisional Radio Station Statutory License should be issued with a validity of six months. The vessels and/or ships will have this period to fulfill the requirements for obtaining both the permanent Statutory Certificate of Registry and the permanent Radio Station Statutory License.

Shipowners are obligated to report to the Directorate General of Merchant Marine any changes to the information submitted at the moment of requesting the provisional ship registration or the provisional radio license. The Directorate General of Merchant Marine can issue extensions to the validity of provisional documents; however, charges and fines may be applied.

**Required documents for permanent ship registration**

A formal request must be submitted to the Directorate General of Merchant Marine through the Public Key Infrastructure system, and the following documentation should be attached:

**General requirements:**

- Original POA from owners to register the vessel/ship if the application is presented to the Directorate General of Merchant Marine in Panama City. Whenever this power of attorney is issued abroad, the POA must be duly notarized, apostilled or authenticated by a Panamanian consulate (if the document is issued in a language other than Spanish it must also be officially translated into Spanish)
- Evidence/proof of ownership of the vessel in the form of the original bill of sale or court-ordered public auction. In the case of a new construction, the original Builder’s Certificate must be presented. If these documents are issued abroad, they must be duly notarized or apostilled or authenticated by a Panamanian consulate (if the documents are issued in a language other than Spanish they must also be officially translated into Spanish)
- Property deed as evidence of ownership of the vessel registered at the Public Registry of Panama
- Certificate of incorporation of the Panamanian company under which the vessels will be registered, if applicable. This certificate must be issued by the Public Registry of Panama
- Deletion certificate proving that the vessel has cancelled its former registry and has the consent of the country of former registration to transfer registry to Panama
- Annual Safety Inspection (ASI) performed by the Navigation and Security Maritime Department. Receipt of payment of applicable taxes and fees
- Any other additional requirement requested by the Directorate General of Merchant Marine

**Technical requirements**

For all cargo ships:

- Copy of the International Tonnage Certificate (ITC)
- Continued Synopsis Record Certificate (CSR)
• Copy of Safety Management Certificate (SMC)
• Copy of Document of Compliance with ISM Code (DOC) by the managing company
• Copy of the International Ship Security Certificate (ISSC)
Additional requirements for oil tankers:
• Copy of International Oil Pollution Prevention Certificate, with its proper form
Additional requirements for fishing vessels:
• Fishing license issued by the Aquatic Resources Authority of Panama (ARAP)
Upon successful fulfilment of requirements and provisions, the Directorate General of Merchant Marine will issue the permanent Statutory Certificate of Registry and permanent Radio Station Statutory License with a validity not exceeding five years.

When vessels are engaging in maritime auxiliary services for boats, procurement of supplies to ships and transport of fuel for supply ships and their owner or bareboat charterer is a legal entity, it must prove that the percentage of the shareholders, or beneficial owners of the corporation, of the shares belonging to Panamanians is not less than 75% of the total issued and outstanding shares or participation shares. If the owner of these kinds of vessels (with one of these activities) is a natural person, he or she must be of Panamanian nationality (an additional requirement per Law 41 of 2013, which amended Law 57 of 2008).

Ship building companies located in the Republic of Panama shall be exempt from the provisions of this article regarding the specifications required by the Maritime Authority of Panama for auxiliary maritime services.

Maritime auxiliary services are defined (Article 168 amended by Law 41 of 2013) as services corresponding to maritime transport, loading services, the ship, crew, passengers or maritime or port facilities.

5.3.2 Ship registration procedure
The procedure for registering ships under the Panamanian flag starts with the application for a provisional registration through a legal representative of the ship owner (natural person or legal entity), this could be the legal representative of the company under which the vessel is registered or in the Panamanian consulates accredited abroad, for which the required information should be filed along with the corresponding payment of the fee.

The provisional registration may be obtained in two days after the application. It will be necessary to provide complete information about the vessel and to pay the government taxes. Once the provisional registration is obtained, the registrant has six months to present all the original documents in order to obtain the permanent registration.

Once all documents and payment of the corresponding rights have been received, a provisional six-month patent from either the authorized consulate or the main office in Panama, and a provisional license of radio for three months, will be issued. The entire procedure takes approximately one business day.

The regulatory patent and the radio license are issued only in Panama, for a four-year term. The patent is awarded once all documents have been submitted and delivered and the title of the ship has been duly registered in the public registry.

Passenger ships, irrespective of size and cargo ships of 1,600 GRT and upwards, unless exempted under Regulation 5 of Chapter IV of SOLAS, shall be fitted with a radiotelegraph station. The radio license is issued when the applicant has duly completed the application of the communication equipment that the ship will have on board, and has complied with the Global Maritime Distress Safety System (GMDSS).

A shipowner who does not provide any of the documents referred to in the provisional register may
request a period of grace of six months through a legal representative.

Expenses and fees payable to the Panamanian authorities in connection with the registration of vessels under the Panamanian flag and annual current charges are:

<table>
<thead>
<tr>
<th>Registration fees (except yachts)</th>
<th>US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vessels with a GRT of up to 2,000</td>
<td>500</td>
</tr>
<tr>
<td>GRT between 2,000 and 5,000</td>
<td>2,000</td>
</tr>
<tr>
<td>GRT between 5,000 and 15,000</td>
<td>3,000</td>
</tr>
<tr>
<td>GRT over 15,000 (plus US$0.10 per each GRT or fraction above to 15,000 GRT with a maximum registration fees of US$6,500)</td>
<td>3,000</td>
</tr>
</tbody>
</table>

Annual tax at the rate of US$0.10 per net tonne or part thereof

Annual charge for investigation of accidents and participation in international conferences and treaties, including tankers, drilling rigs, vessels engaged in the transportation of passengers, gas carriers and vessels engaged in the transportation of chemical products: US$850

<table>
<thead>
<tr>
<th>Fee for other vessels not specified above:</th>
<th>US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>With a GRT of up to 500</td>
<td>300</td>
</tr>
<tr>
<td>GRT between 500 and 10,000</td>
<td>400</td>
</tr>
<tr>
<td>GRT over 10,000</td>
<td>500</td>
</tr>
</tbody>
</table>

In addition, all vessels listed above shall pay US$0.03 per net registered tonne or part thereof. Vessels exempted from the application of the abovementioned charge include pleasure or private use vessels and those without self-propulsion, other than drilling rigs.

**Annual service rate**

Vessel engaged in commercial activities, such as general cargo, passenger trade, fishing in the high seas, drilling rigs, tug boats, dredgers:

<table>
<thead>
<tr>
<th>GRT up to 1,000</th>
<th>1,200</th>
</tr>
</thead>
<tbody>
<tr>
<td>GRT between 1,000 and 3,000</td>
<td>1,800</td>
</tr>
<tr>
<td>GRT between 3,000 and 5,000</td>
<td>2,000</td>
</tr>
<tr>
<td>GRT between 5,000 and 15,000</td>
<td>2,700</td>
</tr>
<tr>
<td>GRT over 15,000</td>
<td>3,000</td>
</tr>
</tbody>
</table>

Vessel without self-propulsion, and those engaged in scientific research, supply, exploration, floating dry docks, submarines, crew boats or in any other activity that is nonprofit or that does not constitute trade:

<table>
<thead>
<tr>
<th>GRT up to 500</th>
<th>850</th>
</tr>
</thead>
<tbody>
<tr>
<td>GRT between 500 and 1,000</td>
<td>1,400</td>
</tr>
<tr>
<td>GRT over 1,000</td>
<td>1,800</td>
</tr>
</tbody>
</table>
Annual safety inspection charges/fees

<table>
<thead>
<tr>
<th>Passengers vessel</th>
<th>US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>GRT up to 1,600</td>
<td>900</td>
</tr>
<tr>
<td>GRT over 1,600</td>
<td>1,800</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tankers and Cargo vessels</th>
<th>US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>GRT up to 500</td>
<td>500</td>
</tr>
<tr>
<td>GRT between 500 and 1,600</td>
<td>750</td>
</tr>
<tr>
<td>GRT between 1,600 and 5,000</td>
<td>850</td>
</tr>
<tr>
<td>GRT between 5,000 and 15,000</td>
<td>1,000</td>
</tr>
<tr>
<td>GRT over 15,000</td>
<td>1,200</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Drilling Rigs</th>
<th>US$</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,300</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Any other vessels not mentioned above</th>
<th>US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>GRT up to 500</td>
<td>500</td>
</tr>
<tr>
<td>GRT between 500 and 5,000</td>
<td>800</td>
</tr>
<tr>
<td>GRT over 5,000</td>
<td>1,000</td>
</tr>
</tbody>
</table>

Special charges for pleasure vessels

Owners of pleasure vessels or those for private use pay a sole registry charge of US$1,500 or US$1,000 if the owner is of Panamanian nationality. The fee must be paid every two years to allow the renewal of the corresponding navigation and ratio license. The above-mentioned charge excludes the payment of any other recurrent annual charge.

Dual registry

Owners of dual registry vessels pay an annual charge of US$150, plus US$0.20 per net tonne or part thereof.

Title registration

There is no charge for the registration of titles. However, the change of ownership of a vessel, or the change of the name of the vessel (including deletion of the vessel from the Panamanian registry) costs US$1,000.

The issuance of certificates

The fees for the issuance of the following documents or certificates are noted below:

- Statutory Certificate of Registry due to loss, damage or renewal: US$300
- Reservation of name for a vessel, payable at the moment of the registration (valid for 30 days): US$20
- Registration of a charter party for vessels, registered under the Law No.11 of 25 January 973: US$150 (plus US$0.20 for each or fraction thereof)
- Radio Station Statutory License due to loss, damage or renewal: US$200
- Renewal or extension of the validity of the Provisional Statutory Certificate of Registry: US$50 (per month)
- Renewal or extension of the validity of the Provisional Radio Station Statutory License: US$150 (for every three-month period)

Special discounts
Pursuant to Decree No. 39 of 1987 and Law 57 of 2008, the Shipping Bureau may authorize a discount on the registration charges for a vessel to be registered under the Panamanian flag where significant tonnage is being transferred. A special application for discount must be filed with the Shipping Bureau prior to registration.

The Panama Maritime Authority, in order to maintain the competitiveness of the Panama Registry, has issued Resolution No. 106-136-DGMM dated 10 Sept 2013 (the Competitiveness Resolution) whereby new discounts on registration fees and annual consular fees are established for all newly built vessels and for all other vessels with more than 10,000 GRT and less than 15 years that are registered by 31 December 2013.

The General Directorate of Merchant Marine has mentioned that the validity term of these new incentives will be extended by one year.

Discounts established in the Competitiveness Resolution will apply in addition to discounts already established by the General Merchant Marine Law No. 57 of 2008.

5.3.3 Parallel registration

According to Law 57 of 2008, a foreign vessel, subject to a bareboat charter, could be registered in Panama without losing its previous registration, but only if the home jurisdiction has similar provisions allowing dual registration.

5.3.4 Requirements for officers and crew serving on vessels

Certification of seafarers

In order to comply with the international convention on STCW, the Administration has taken the relevant action regarding the proper examination of the crew on board all ships registered under the Panamanian Flag.

The Administration and Panamanian consulates all over the world are authorized to issue the aforementioned certificates to any seafarer who applies for a certificate, whether or not he or she is employed to work on a vessel registered under the Panamanian flag.

Procedure

An application form must be filed with the Technical Department of the Shipping Bureau or with the Panamanian consulates. The application must be lodged with the following documents:

- Officer’s Certificate of Competence:
- A letter of recommendation from the company where the applicant is or was employed
- Document certification by a Panamanian consul
- Seafarer’s register (special form to be used):
  - For new applicants: evidence of activities performed during the last five years
  - For renewals or promotions: evidence of activities performed during the last two years
  - A copy of the page of the identity card or passport with the applicant’s general data; for renewals or promotions, the relevant provisional certificate
  - Medical certificate (special form supplied on request), duly certified by a Panamanian consul
  - Eight color 3cm² photos, each bearing the name of the applicant on the back
- Seafarer’s certificate:
  - The same documents as for the officer’s certificate
  - Criminal record check
  - Any certificates or titles of competency – a Panamanian consul should duly certify the originals and copies of such documents

There is a system to validate certificates of competency or seafarer’s certificates issued by third parties. Jurisdictions that qualify are: Argentina, Australia, Brazil, Belgium, Canada, Chile, China, Colombia, Croatia, Cuba, Czech Republic, Denmark, Ecuador, Finland, France, Germany, Greece, India, Ireland, Israel, Italy, Japan, Korea (South), Mexico, the Netherlands, New Zealand, Norway, Pakistan, Peru, Poland, Portugal, the Russian Federation, Slovenia, South Africa, Spain, Sweden, Taiwan, Ukraine, United Kingdom, United States,
Uruguay and Venezuela.

5.3.5 **International conventions regarding registration**
Technical certificates required by international conventions:
- Passenger Ship Safety Certificate
- Cargo Ship Safety Construction Certificate
- Cargo Ship Safety Equipment Certificate
- Cargo Ship Safety Radiotelegraphy Certificate
- Cargo Ship Safety Radiotelephony Certificate
- International Loadline Certificate
- Minimum Manning Certificate
- Classification Certificate

5.3.6 **Special requirements/rules relating to registration**
Duties have to be paid in order to register the ship.
Philippines

1. Tax

1.1 Tax facilities for shipping companies

Shipping income

Pursuant to Republic Act (RA) No. 9301 (approved on 27 July 2004), which amends RA No. 7471 (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. In July 2014, House Bill (HB) No. 4550 was filed with the House of Representatives proposing to extend such income tax exemption of Philippine shipping enterprises for an additional 10 years. The HB, however, is still pending review in Congress as of February 2016.

The income tax exemption sought to be extended shall apply 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 for which at least 60% of the capital 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.

On the other hand, an international carrier doing business in the Philippines pays tax at a rate of 2.5% on its gross Philippine billings.

“Gross Philippine billings” means gross revenue, whether for the transportation of passengers, cargo or mail originating from the Philippines up to the final destination, regardless of the place of sale or payment of the passage or freight documents (Section 28(A)(3)(b) of the National Internal Revenue Code (NIRC), as amended by RA No. 10378).

However, international carriers doing business in the Philippines may avail of reduced tax rates (e.g., 1.5%) under applicable tax treaties or exemption on the basis of reciprocity (Section 28(A)(3)(b) of the NIRC, as amended by RA No. 10378).

At present, tax treaties with the following 40 countries are in force in the Philippines:

Australia, Austria, Bahrain, Bangladesh, Belgium, Brazil, Canada, China, Czech Republic, Denmark, Finland, France, Germany, Hungary, India, Indonesia, Israel, Italy, Japan, Korea (South), Kuwait, Malaysia, Netherlands, New Zealand, Nigeria, Norway, Pakistan, Poland, Qatar, Romania, Russian Federation, Singapore, Spain, Sweden, Switzerland, Thailand, United Arab Emirates, United Kingdom, United States of America and Vietnam.

An exchange of notification of a treaty with Poland is pending, and treaties with Chile (limited to shipping), Finland (protocol amending the convention), France (protocol amending the agreement), Indonesia (renegotiated treaty), Nigeria, Qatar and Sri Lanka are pending approval by the Philippine Senate.
The treaties with Thailand (renegotiated) and Turkey are pending signature, while the treaties with Brunei Darussalam, Germany (renegotiated), Iran, Myanmar, Oman, Papua New Guinea, Saudi Arabia (air transport) and Tunisia are under negotiation.

Tax exemption based on reciprocity may be availed by an international carrier if its home country grants income tax exemption to Philippine carriers. “Home country” is defined as the country under whose laws the international carrier is organized or incorporated (Revenue Regulations [RR] No. 15-13, 20 September 2013).

To avail of reduced tax rates or exemption, an international carrier may file a request for a confirmatory ruling with the International Tax Affairs Division of the Bureau of Internal Revenue (RR No. 15-13, 20 September 2013).

**Value-added tax**

Domestic sea carriers are subject to 12% value-added tax (VAT) on their transport of passengers, goods or cargo 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 domestic sea carriers 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. 031-08, 30 January 2008).

Online international sea carriers are not subject to VAT. Instead, they are subject to a tax of 3% imposed on their gross receipts from outbound transport of cargo pursuant to Section 118 of the NIRC, as amended by RA No. 10378. However, if online international sea carriers engage in other transactions that are not VAT-exempt under Section 119 of the NIRC, they shall be liable to the 12% VAT on these transactions (RMC No. 031-08).

The sale, importation or lease of passenger or cargo vessels, including engine, equipment and spare parts for domestic or international transport operations, is exempt from VAT (Section 109(T) of the NIRC, as amended). To avail of this VAT exemption, the requirements set forth in RA 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 cargo 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(U) of the NIRC, as amended, and RMC No. 031-08).

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 cargo loaded in and from another domestic port. Thus, if any portion of such fuel, equipment, goods, 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(T) of the NIRC, as amended and RMC No. 031-08).

**Import duties and taxes**

Importation by a Philippine shipping enterprise operating or to operate oceangoing vessels that 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 (1) 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 (2) 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.

1.2 Tax facilities for seafarers
An individual citizen of the Philippines who is working and deriving income from abroad as an overseas contract worker (OCW) is taxable only on income from sources within the Philippines. A seafarer 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 is treated as an OCW (Section 23 (C) of the NIRC, as amended). To be considered an OCW, a seafarer must be duly registered as such with the Philippine Overseas Employment Administration (POEA) and should have a valid Overseas Employment Certificate (OEC) with a valid Seafarers Identification Record Book (SIRB) or Seaman's Book issued by the MARINA (RR No. 01-11).

In addition, under RA No. 8042, the Migrant Workers and Overseas Filipino Act of 1995, as amended by RA No. 10022, Filipino seafarers are exempt from paying documentary stamp tax (DST) on remittances and travel tax.

1.3 Freight taxes (common carriers tax)
International shipping carriers doing business in the Philippines shall be taxed 3% of their quarterly gross receipts from outbound transport of cargo (Section 118 of the NIRC, as amended). There are no shipping treaties that grant relief from freight tax. Note, however, that since international shipping carriers doing business in the Philippines are already subject to 3% tax on quarterly gross receipts from outbound freight, they shall no longer be subject to VAT pursuant to Section 109 (E) of the NIRC, as amended.

1.4 Special vessel registration tax benefits for the shipowner
As discussed in section 4, “Grants and incentives,” the shipowner can take advantage of special tax benefits under RA No. 9295, the Domestic Shipping Development Act of 2004 (which is sought to be extended for another 10 years through HB No. 4550), or those provided by the Board of Investments (BOI) under the Investments Priorities Plan (IPP) if the shipping operations are registered with the BOI.

The 2014 IPP, which took effect on 9 January 2015 or 15 days after its publication in the Manila Bulletin on 25 December 2014, includes shipbuilding and ship repair in the list of preferred activities for investments. The BOI issued Memorandum Circular 2015-1 on 6 April 2015 prescribing the general policies and specific guidelines to implement the 2014 IPP.

1.5 Changes to tax law anticipated in the near future
A notable milestone in the shipping industry is the passage of RA No. 10668 or the Act Allowing Foreign Vessels to Transport and Co-Load Foreign Cargoes for Domestic Transshipment and for Other Purposes, which was signed into law on 21 July 2015.

The law aims to enhance the competitiveness of importers and exporters in light of intensifying international trade. It also aims to lower the cost of shipping export cargo from Philippine ports to international ports and
import cargo from international ports for the benefit of the consumers. In line with this, it principally gives foreign vessels access to multiple ports in the country for the transport and co-loading of foreign cargo, thereby expressly repealing Section 1009 of the Tariff and Customs Code of the Philippines of 1978 (TCCP). Accordingly, foreign shippers, importers and exporters are no longer required to engage the services of a domestic shipper for the transshipment of foreign cargo from one port to another port within the Philippines. Under Section 4 of RA No. 10668, the following foreign vessels are now allowed to transport and co-load foreign cargo for domestic transshipment: (a) foreign vessels arriving from a foreign port shall be allowed to carry a foreign cargo to its Philippine port of final destination, after being cleared at its port of entry; (b) foreign vessels arriving from a foreign port shall be allowed to carry a foreign cargo by another foreign vessel calling at the same port of entry to the Philippine port of final destination of such foreign cargo; (c) foreign vessels departing from a Philippine port of origin through another Philippine port to its foreign port of final destination shall be allowed to carry a foreign cargo intended for export; and (d) foreign vessels departing from a Philippine port of origin shall be allowed to carry a foreign cargo by another foreign vessel through a domestic transshipment port and transferred at such domestic transshipment port to its foreign port of final destination.

In addition, the forthcoming Philippine Maritime Code is a piece of legislation intended as an omnibus code for the country. It consolidates and updates existing laws in Philippine shipping, and it incorporates standards set forth in international agreements. Several versions of the legislation are pending with the House of Representatives.

1.6 Tonnage tax regime
The Philippines does not have a tonnage tax regime.

2. Human capital
According to the 2014 Overseas Employment Statistics issued by the POEA, more than 400,000 Filipino seafarers were deployed worldwide in 2014.

Deployment of seafarers by top flags of registry 2012-14

<table>
<thead>
<tr>
<th>Flag of registry</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Panama</td>
<td>67,567</td>
<td>69,297</td>
<td>71,356</td>
</tr>
<tr>
<td>2. Bahamas</td>
<td>38,942</td>
<td>41,627</td>
<td>50,379</td>
</tr>
<tr>
<td>3. Liberia</td>
<td>36,912</td>
<td>35,585</td>
<td>35,974</td>
</tr>
<tr>
<td>5. Malta</td>
<td>17,662</td>
<td>19,249</td>
<td>23,793</td>
</tr>
<tr>
<td>6. Singapore</td>
<td>19,488</td>
<td>18,820</td>
<td>22,561</td>
</tr>
<tr>
<td>7. Bermuda</td>
<td>12,621</td>
<td>15,203</td>
<td>16,509</td>
</tr>
<tr>
<td>8. Norway</td>
<td>11,916</td>
<td>11,877</td>
<td>13,232</td>
</tr>
<tr>
<td>9. Netherlands</td>
<td>10,644</td>
<td>7,921</td>
<td>12,582</td>
</tr>
<tr>
<td>10. Italy</td>
<td>11,564</td>
<td>11,865</td>
<td>12,297</td>
</tr>
<tr>
<td>Other flags of registry</td>
<td>113,754</td>
<td>108,278</td>
<td>110,964</td>
</tr>
<tr>
<td>TOTAL</td>
<td>366,865</td>
<td>367,166</td>
<td>401,826</td>
</tr>
</tbody>
</table>

*Note: No available statistical data for year 2015.
2.1 **Formalities for hiring and training personnel**

Foreign and domestic shipping companies owning or operating vessels engaged in overseas shipping are required to hire Filipino seafarers through a POEA-licensed manning agency (2003 POEA Rules and Regulations).

An employer who has identified a Philippine manning agent must submit the following to the POEA:

- Manning agreement containing, among other things, the responsibilities of both principal and manning agency with respect to the employment of seafarers
- Special power of attorney
- List of ships and their particulars, including International Maritime Organization (IMO) number
- Crew complement
- Valid business license registration certificate or equivalent document or proof of existence of business validated or certified by the issuing authority in the host country
- Other documents the POEA may find necessary

Each seafarer assigned on board a ship should hold the appropriate certificate in accordance with the provisions of the 1978 Standards of Training, Certification & Watchkeeping (STCW) Convention, now amended as STCW 95. Personnel serving on board apart from the crew have to receive familiarization training on safety matters.

2.2 **National labor law**

The Labor Code of the Philippines applies to crew members of all Philippine-flagged vessels.

RA No. 8042, as amended by RA No. 10022, institutes the policies of overseas employment and establishes higher standards of protection and promotion of the welfare of migrant workers, their families and overseas Filipinos in distress. With the amendment of RA No. 8042 by RA No. 10022, Filipino seafarers deployed by a manning agency are now required to be covered by a compulsory insurance policy at no cost to said workers (Section 23, RA No. 10022).

The POEA standard employment contract for seafarers primarily governs the employment relations between Filipino seafarers on board oceangoing vessels and their employers.

In addition, RA No. 10706, the Seafarers Protection Act, was passed on 26 November 2015.

The law provides further protection and security to Filipino seafarers desiring to work overseas by securing the best possible terms and conditions of employment. It prohibits the conduct of any person to engage in ambulance chasing or the act of soliciting, personally or through an agent, from seafarers, or their heirs, the pursuit of any claim against their employers for the purpose of recovery of monetary claim or benefit, including legal interest, arising from accident, illness or death, in exchange of an amount or fee which shall be retained or deducted from the monetary claim or benefit granted to or awarded to the seafarers or their heirs.

2.3 **Regulations on employing personnel**

In the Philippines, the prevailing requirement is that the personnel to be hired hold at least a tertiary degree (i.e., a college degree). Seafarers must have passed the examinations required by the government and must have other qualifications and skills. Operations personnel should preferably hold a Bachelor of Science degree with a major in Customs. Previous work experience is important but not essential.

2.4 **Collective labor agreements**

The collective agreements entered into by the seafarers and the management of the shipping company are contained in the contract(s) signed by both parties. Seafarers are usually hired on a contract basis, covering a period that usually ranges from 10 months for tankers to 12 months for cargo – roll-on/roll-off (ro-ro) vessels, for example. These may be renewed or extended as agreed upon by the personnel and the management.

Shipping companies provide the personnel to man the ships. Shipowners pay the shipping companies for
the services of the crew. As defined by the POEA, shipping companies in the Philippines must strictly abide by the laws of the Republic with regard to the minimum wage and other mandatory payments. The shipping companies are accountable for remitting wages to the seafarers. Shipowners, on the other hand, are responsible for the health and disability insurance of the seafarers on board their vessels.

Shipping companies in the country abide by the terms of the contract between the management and their personnel so as to eliminate the risk of lawsuits arising from unlawful dismissal. Seafarers work a standard eight-hour day, or as assigned by the management of the vessel. Furthermore, shipping personnel are also given up to two and one-half days’ leave per month.

2.4.1 Dispute settlement procedures
In cases of claims and disputes arising from employment, parties covered by collective bargaining agreements are governed by grievance procedures and arbitration clauses wherein both parties undertake to avail of, or resort to, said grievance procedure before submitting the claim or dispute to the original and exclusive jurisdiction of the voluntary arbitrator or panel of arbitrators.

If the parties are not covered by a collective bargaining agreement, the parties may at their option submit the claim or dispute to either the original and exclusive jurisdiction of the National Labor Relations Commission (NLRC) or to the original and exclusive jurisdiction of the voluntary arbitrator or panel of arbitrators. If there is no provision as to the voluntary arbitrators to be appointed by the parties, the same shall be appointed from the accredited voluntary arbitrators of the National Conciliation and Mediation Board of the Department of Labor and Employment (DOLE).

The POEA shall exercise original and exclusive jurisdiction to hear and decide disciplinary action on cases that are administrative in character, involving or arising out of violations of recruitment laws, rules and regulations involving employers, principals, contracting partners and Filipino seafarers.

2.5 Treaties relating to social security contributions
The Philippines has bilateral agreements on social security with Austria, Belgium, Canada, Netherlands, Switzerland and United Kingdom.

The salient features of the treaties include:
- Mutual assistance between the Philippines and the other country in the field of social security: covered members or beneficiaries may file their claims with the designated liaison agencies of the Philippines or the other country, which will extend assistance to facilitate the processing of claims.
- Equality of treatment: a Filipino person covered by social security shall be eligible for benefits under the same conditions as the nationals of the other country, as shall his or her dependents and survivors.
- Export of social security benefits: a Filipino person shall continue to receive his or her benefits wherever he or she decides to reside, whether in the Philippines, in the other country or even in a third country.
- Totalization: creditable membership periods in both the host country and the Philippines (excluding overlaps) shall be added to determine qualification for benefits.
- Prorated payment of benefits: both the host country and the Philippines shall pay a fraction of the benefit due from their respective systems, in proportion to the actual contributions or creditable periods.

2.6 Manning issues with flying the Philippine flag
Philippine-registered ships are manned fully by Philippine officers and ratings, except as authorized by the MARINA. Crew members must meet certain qualifications regarding education and skills (see section 2.3).

3. Corporate structure

3.1 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.
POEA-licensed manning agencies may be Filipino single proprietorships, partnerships or corporations in which at least 75% of the authorized and voting capital stock is owned and controlled by Filipino citizens. POEA rules and regulations require a minimum capitalization of PHP2 million (€38,000) in the case of a single proprietorship or partnership and a minimum paid-up capital of PHP2 million (€38,000) in the case of a corporation.

3.2 Taxation of profit distribution
Profit distribution will be taxed based on the following tax rates:

- For corporations, the tax rate is 0% for domestic and resident foreign corporate stockholders and 15% for nonresident foreign corporations, subject to the condition that the country in which the nonresident foreign corporation is domiciled allows a credit against the tax due from the nonresident foreign corporation, equivalent to 15% of the taxes deemed to have been paid in the Philippines. Nonresident 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 nonresident 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 generally 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). Preferential rates may be availed of under certain tax treaty provisions.

4. Grants and incentives

4.1 Investment incentives under RA No. 9295  
(Domestic Shipping Development Act of 2004)
Investment incentives are granted to qualified domestic shipowners and 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 lifesaving equipment, firefighting 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 or operator in his or her transport operations
- Sale, transfer and disposition of the aforementioned articles

Net operating loss carryover:
- A net operating loss in any taxable year immediately preceding the current taxable year that 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 or operator” shall mean a citizen of the Philippines, a commercial partnership wholly owned by Filipino persons or a corporation at least 60% of the capital of which is owned by Filipino persons that is duly authorized by the MARINA to engage in the business of domestic shipping.

4.2 Investment incentives generally granted to entities engaged in preferred activities of investments under the IPP and duly registered with the BOI
Fiscal incentives:
- Income tax holiday:
  - 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 or trading warehouse

4.2.1 Requirements to qualify for BOI incentives pursuant to the 2014 IPP

As mentioned above, the BOI issued Memorandum Circular 2015-1 on 6 April 2015 prescribing the general policies and specific guidelines to implement the 2014 IPP, including the provisions on the preferred activities of shipbuilding and ship repair.

Shipbuilding

Shipbuilding covers the construction and repair of ships or boats and includes shipbreaking or ship recycling. The following are the requirements for registration:

- For shipbuilding, vessels to be built must be at least 500 gross tonnage (GT).
- For shipbreaking and recycling, facilities must have a dry-docking or dismantling slipway with a minimum capacity of 1,500 deadweight tonnage (DWT).

Registered enterprises must comply with Department of Labor and Employment Department Circular No. 1 series of 2009 on the Guidelines on Occupational Safety and Health in Shipbuilding, Ship Repair and Shipbreaking Industry and submit a copy of the Department of Environment and Natural Resources Environmental Compliance Certificate.

Prior to the start of commercial operations, the registered enterprise must submit to the BOI a copy of its License to Operate or its equivalent from the MARINA or appropriate government authority.

Any of the following may qualify for pioneer status:

- Shipbuilding or ship repair facilities with a minimum lifting capacity of 20,000 DWT
- Shipbuilding or ship repair facilities with a minimum berthing capacity of 7,500 DWT

Water transport – domestic and interisland shipping

Domestic and interisland shipping covers pure cargo, passenger and passenger-cargo vessel operations, including ro-ro terminal system (RRTS) operations.

The following are the qualifications for registration:

- The registrant must be a MARINA-accredited Philippine shipping enterprise.
- Vessel must be registered with the MARINA.
- Vessel must comply with the following age limitations:
  - Tankers, 10 years
  - High-speed craft, five years
  - Passenger or cargo, 15 years
- Tankers, high-speed craft, ro-ro vessels serving primary routes and passenger or cargo vessels must have a gross weight of 150 GT or above.
The age of the vessel shall be reckoned from the date of launching based on the Builder's Certificate or Certificate of Vessel Registry.

Ro-ro operators and enterprises serving missionary routes, as indicated in the Certificate of Public Convenience (CPC) issued by the MARINA, may qualify for pioneer status.

**Salvaging operations**

Salvaging pertains to the rescue of a seriously damaged or incapacitated ship that may include refloating and towing of the ship to a safe place. It also pertains to the removal of a sunken or wrecked ship, derelict or hazardous, including its cargo.

Only income from salvaging operations may be entitled to an income tax holiday.

All applications for registration must be endorsed by the concerned agency.

**Logistics**

This covers ports, terminals and warehouses.

**Ports**

This covers the development and operation of seaports.

All applications for registration must be endorsed by the Philippine Port Authority (PPA).

**Terminals**

This covers the development and operation of the following:

(a) Cargo terminals and container yards

The following are the qualifications for registration:

- Must have new facilities
- Must have a system of ingress and egress to prevent traffic buildup and obstruction of thoroughfares on a 24-hour basis as certified by Department of Transportation and Communication (DOTC), Metropolitan Manila Department Authority (MMDA) and/or other concerned agency

(b) Liquefied natural gas (LNG) and compressed natural gas (CNG) storage, distribution and marketing facilities

The following are the qualifications for registration:

- Must have new facilities
- Must cater to power plants, industrial plants, shipping vessels, commercial establishments or land transport
- Must cater to at least one client other than the proponent's own business

Prior to beginning commercial operation, the registered enterprise must submit a copy of its Permit to Operate issued by the Department of Energy (DOE).

**Autonomous Region of Muslim Mindanao (ARMM) list**

In addition to the above, the regional BOI of the ARMM has independently determined the following priority activities in accordance with Executive Order (EO) No. 458:

- Public utilities, such as common carriers with developmental route of the five provinces and one city of the ARMM and other adjacent cities
- Logistics

The abovementioned activities will be entitled to incentives only when these activities are undertaken within the ARMM region, which comprises the provinces of Sulu, Maguindanao, Lanao del Sur, Tawi-tawi, Basilan and Shariff Kabunsuan. Projects located in the ARMM region must be registered with the BOI ARMM.

4.3 Special incentives for environmental awareness

No special incentives are provided for environmental awareness in the Philippine shipping industry.
4.4 **Issues with flying the Philippine flag**
A possible issue with flying the Philippine flag is the imposition of the 4.5% withholding tax under Section 28 (B) (3) of the NIRC, as amended, which provides:

“A nonresident owner or lessor of vessels shall be subject to a tax of 4.5% of gross rentals, lease or charters to Filipino citizens or corporations, as approved by the Maritime Industry Authority.”

The MARINA believes that the above-quoted provision of the NIRC as amended is a disincentive against registering under the Philippine flag since the financial burden is imposed on Philippine-flagged vessels while the same tax may not be imposed on foreign-flagged vessels carrying Philippine cargo.

4.5 **Major changes in shipping subsidy legislation in the near future**
HB No. 4935, the Investments and Incentives Code of the Philippines, rationalizes and consolidates several tax incentive laws of the Philippines, including EO No. 226. Similar to EO No. 226, HB No. 4935 grants various tax incentives based on areas of investment set out in an IPP, which, under the HB, shall be issued every three years.

Under HB No. 4935, incentives granted to existing registered enterprises shall continue to be legally binding in accordance with the terms and conditions stated thereof.

HB No. 4935 was approved by the House of Representatives on 15 August 2011 and submitted to the Senate on 18 August 2011. Several versions of the bill have since then been filed with the Senate. The bills are undergoing deliberations with the Senate Committee on Ways and Means.

5. **General information**

5.1 **Infrastructure**

5.1.1 **Major ports**

The Philippine port system comprises more than 1,000 ports. Of this number, around 12%, or 123 seaports, belong to or come under the PPA port system, which consists of 25 base ports and 102 secondary ports (or terminal ports). The remaining ports are under the jurisdiction of the DOTC. The PPA port system has five Port District Offices, each having jurisdiction over all ports within their geographical territory. The 25 major ports are:

1. Batangas City, Batangas
2. Calapan City, Oriental Mindoro
3. Cagayan de Oro City, Misamis Oriental
4. Cotabato City, Maguindanao
5. Dapitan City, Zamboanga del Norte
6. Davao City, Davao del Sur
7. Dumaguete City, Negros Oriental
8. Gen. Santos City, South Cotabato
9. Iligan City, Lanao del Norte
10. Iloilo City, Iloilo
11. Jolo, Sulu
12. Legaspi City, Albay
13. Limay, Bataan
14. Nasipit, Agusan del Norte
15. North Harbor, Manila
16. Ormoc City, Leyte
17. Ozamis City, Misamis Occidental
18. Puerto Princesa, Palawan
19. Pulupandan, Negros Occidental
20. San Fernando City, La Union
21. South Harbor, Manila
22. Surigao City, Surigao del Norte
23. Tacloban City, Leyte
24. Tagbilaran City, Bohol
25. Zamboanga City, Zamboanga del Sur

Most ports are required by the PPA to have compulsory pilotage and towage.

5.1.2 Port facilities
The PPA provides a variety of facilities that support the Philippine shipping services, such as:

- Domestic and foreign general cargo berths
- Multipurpose berths
- Ro-ro ferry facilities
- Fastcraft and small fastcraft berths
- Transit sheds for handling domestic and foreign cargo
- Passenger terminal buildings
- Arrastre service (cargo handling)
- Open storage areas and other storage facilities
- Cargo-cum-passenger vessels
- Coastal towage services
- Maintenance and repair facilities with docking facilities
- Cranes for every size of vessel

5.1.3 Support services for the shipping industry
The following support services for the shipping industry are available:

- Consulting firms specialized in shipping
- Maritime law services
- Insurance companies and brokers for the shipping industry

The BOI has listed the shipping industry under the IPP. Industries listed in the IPP are eligible for several incentives. A number of associations and organizations composed of companies involved in shipping have grouped together to espouse common interests. These are the Association of International Shipping Lines (AISL), the Philippine International Sea Freight Forwarders Association (PISFA) and the Philippine Shippers’ Council (SHIPPERCON).

5.1.4 Maritime education
Republic Act No. 10635, which establishes the MARINA as the single maritime administration responsible for the implementation and enforcement of the STCW and international agreements or covenants related thereto, consolidates all STCW certification functions under MARINA, including, among others, recognition of maritime higher education institution.

As of 23 February 2015, there are 23 maritime schools in the Philippines providing education with the objective of complying with national and international quality standards. The maritime courses offered in the Philippines are a Bachelor of Science in Marine Transport (BSMT) for deck officers and a Bachelor of Science in Marine Engineering (BSMarE) for engine officers. These maritime courses include training in navigation, technicalities and engineering of the vessel. Furthermore, these courses meet the present international requirements provided in STCW.

There are also maritime higher education institutions eligible to offer the ratings of deck and engine programs
that have expressed their interest to offer an Enhanced Support Level Program (ESLP) and those institutions undergoing further review.

<table>
<thead>
<tr>
<th>No. (€)</th>
<th>Region (€)</th>
<th>Maritime higher education institution (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>III</td>
<td>Philippine Merchant Marine Academy, San Narciso, Zambales</td>
</tr>
<tr>
<td>2</td>
<td>III</td>
<td>Maritime Academy of Asia and Pacific, Mariveles, Bataan</td>
</tr>
<tr>
<td>3</td>
<td>III</td>
<td>Baliwag Maritime Academy, San Rafael, Bulacan</td>
</tr>
<tr>
<td>4</td>
<td>IV-A</td>
<td>Lyceum of the Philippines University - Batangas, Batangas City</td>
</tr>
<tr>
<td>5</td>
<td>IV-A</td>
<td>NYKTDG Maritime Academy, Canlubang, Laguna</td>
</tr>
<tr>
<td>6</td>
<td>V</td>
<td>Malayan Colleges Laguna, Cabuyao, Laguna</td>
</tr>
<tr>
<td>7</td>
<td>V</td>
<td>Mariners Polytechnic College Foundation, Rawit, Legazpi City</td>
</tr>
<tr>
<td>8</td>
<td>V</td>
<td>Mariners Polytechnic Colleges Foundation, Canaman, Camarines Sur</td>
</tr>
<tr>
<td>9</td>
<td>VI-A</td>
<td>John B. Lacson Foundation Maritime University, Arevalo, Iloilo City</td>
</tr>
<tr>
<td>10</td>
<td>VI-A</td>
<td>John B. Lacson College Foundation, Bacolod City</td>
</tr>
<tr>
<td>11</td>
<td>VI-A</td>
<td>VMA Global College, Sum-ag, Bacolod City</td>
</tr>
<tr>
<td>12</td>
<td>VII</td>
<td>St. Therese - MTC Colleges - Magdalo, La Paz, Iloilo City</td>
</tr>
<tr>
<td>13</td>
<td>VII</td>
<td>St. Therese - MTC Colleges - Tigbauan, Tigbauan, Iloilo City</td>
</tr>
<tr>
<td>14</td>
<td>VII</td>
<td>University of Cebu, Mambaling, Mambaling, Cebu City</td>
</tr>
<tr>
<td>15</td>
<td>VII</td>
<td>University of the Visayas, Cebu City</td>
</tr>
<tr>
<td>16</td>
<td>VIII</td>
<td>PMI Colleges - Bohol, Tagbilaran City, Bohol</td>
</tr>
<tr>
<td>17</td>
<td>VIII</td>
<td>Palompon Institute of Technology, Palompon, Leyte</td>
</tr>
<tr>
<td>18</td>
<td>IX</td>
<td>Zamboanga State College of Marine Sciences and Technology, Zamboanga City</td>
</tr>
<tr>
<td>19</td>
<td>X</td>
<td>Capitol University (formerly: Cagayan Capitol College), Cagayan de Oro City</td>
</tr>
<tr>
<td>20</td>
<td>XI</td>
<td>DMMA College of Southern Philippines, Davao City</td>
</tr>
<tr>
<td>21</td>
<td>NCR</td>
<td>FEATI University, Sta. Cruz, Manila</td>
</tr>
<tr>
<td>22</td>
<td>NCR</td>
<td>Asian Institute of Maritime Studies, Pasay City</td>
</tr>
<tr>
<td>23</td>
<td>NCR</td>
<td>Technological Institute of the Philippines - Manila, Quiapo Manila</td>
</tr>
</tbody>
</table>

Maritime higher education institutions with a recognized merchant marine (engineer) officer program (Bachelor of Science in Marine Engineering) for school year 2015-16 (as at 23 February 2015)

<table>
<thead>
<tr>
<th>No. (€)</th>
<th>Region (€)</th>
<th>Maritime higher education institution (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>III</td>
<td>Philippine Merchant Marine Academy, San Narciso, Zambales</td>
</tr>
<tr>
<td>2</td>
<td>III</td>
<td>Maritime Academy of Asia and Pacific, Mariveles, Bataan</td>
</tr>
<tr>
<td>3</td>
<td>III</td>
<td>Baliwag Maritime Academy, San Rafael, Bulacan</td>
</tr>
</tbody>
</table>

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5.1.5 Maritime training

The Maritime Training Council (MTC) was established on 1 May 1984 by virtue of Letter of Instruction No. 1404 in keeping with the Philippines’ commitment as a signatory to STCW 95. The MTC is attached to the DOLE for administrative and policy control. MTC’s vision is to maintain the status of the Philippines as the major provider of qualified and competent seafarers in the world maritime labor market. Its mission is to ensure quality education and training for Filipino seafarers and develop a seafaring workforce who are duly certified, are globally competent and compliant with national and international standards, and to aid the country’s maritime sector.

As of 9 February 2016, the following are the maritime training centers authorized and accredited by the MTC:

<table>
<thead>
<tr>
<th>Region (€)</th>
<th>Maritime training center (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Capital</td>
<td>1. Allstar Maritime Training Center</td>
</tr>
<tr>
<td></td>
<td>2. Altitude Maritime Training Center, Inc.</td>
</tr>
<tr>
<td></td>
<td>3. AJ Center for Excellence, Inc.</td>
</tr>
<tr>
<td>Region (€)</td>
<td>Maritime training center (€)</td>
</tr>
<tr>
<td>---------------------</td>
<td>---------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>National Capital</td>
<td>4. Alvils Prime Vertical Maritime Corporation</td>
</tr>
<tr>
<td></td>
<td>5. Ascent Competence and Training Institute, Inc.</td>
</tr>
<tr>
<td></td>
<td>6. Assessment and Research Center of the Philippines</td>
</tr>
<tr>
<td></td>
<td>7. Avior Marine, Inc.</td>
</tr>
<tr>
<td></td>
<td>8. Barkopro Consultancy Services</td>
</tr>
<tr>
<td></td>
<td>9. Britannia Training Center</td>
</tr>
<tr>
<td></td>
<td>10. BSM Maritime Training Center Philippines, Inc.</td>
</tr>
<tr>
<td></td>
<td>11. Bulkmaster Navigator Maritime Services</td>
</tr>
<tr>
<td></td>
<td>12. Center for Knowledge and Advance Training, Inc.</td>
</tr>
<tr>
<td></td>
<td>13. Competence Development Center, Inc.</td>
</tr>
<tr>
<td></td>
<td>15. Competent Maritime Professionals and Sea Staff Training Center</td>
</tr>
<tr>
<td></td>
<td>16. Consolidated Training Systems</td>
</tr>
<tr>
<td></td>
<td>17. Eastgate Maritime Training Center</td>
</tr>
<tr>
<td></td>
<td>18. European Training &amp; Competence Centre</td>
</tr>
<tr>
<td></td>
<td>19. Excellence and Competency Training Center</td>
</tr>
<tr>
<td></td>
<td>20. FSC Training Center</td>
</tr>
<tr>
<td></td>
<td>21. Far East Maritime Foundation</td>
</tr>
<tr>
<td></td>
<td>22. Global Training Systems, Inc.</td>
</tr>
<tr>
<td></td>
<td>23. Global Maritime Training Center</td>
</tr>
<tr>
<td></td>
<td>24. GPN International Maritime Training Center</td>
</tr>
<tr>
<td></td>
<td>25. Great Seas Mariners Training &amp; Assessment Center</td>
</tr>
<tr>
<td></td>
<td>26. Hanseatic Shipping Philippines – Hanseatic Training Institute</td>
</tr>
<tr>
<td></td>
<td>27. Intership Navigation Training Center</td>
</tr>
<tr>
<td></td>
<td>28. Italian Maritime Academy Philippines</td>
</tr>
<tr>
<td></td>
<td>29. KGJS Fleet Management Manila, Inc.</td>
</tr>
<tr>
<td></td>
<td>31. Lighthouse Maritime Training Center</td>
</tr>
<tr>
<td></td>
<td>32. Magsaysay Training Center</td>
</tr>
<tr>
<td></td>
<td>33. Mariana Maritime Center, Inc.</td>
</tr>
</tbody>
</table>

Shipping Industry Almanac 2016
<table>
<thead>
<tr>
<th>Region (€)</th>
<th>Maritime training center (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Capital</td>
<td>34. Mariners' Polytechnic Training Center</td>
</tr>
<tr>
<td></td>
<td>35. Maritech Maritime Training Studies and Manning Services</td>
</tr>
<tr>
<td></td>
<td>36. Maritime Technological and Allied Services</td>
</tr>
<tr>
<td></td>
<td>37. Meridian International Maritime Training Center</td>
</tr>
<tr>
<td></td>
<td>38. Nautical Options Training Institute of the Philippines, Inc.</td>
</tr>
<tr>
<td></td>
<td>40. Nautical Training International and Competency Academy, Inc.</td>
</tr>
<tr>
<td></td>
<td>41. New Simulator Center of the Philippines</td>
</tr>
<tr>
<td></td>
<td>42. NE Plus Ultra Training Center Corp.</td>
</tr>
<tr>
<td></td>
<td>43. Noble Maritime &amp; Offshore Training Center Services, Corp.</td>
</tr>
<tr>
<td></td>
<td>44. Northstar Training and Consultancy</td>
</tr>
<tr>
<td></td>
<td>45. Norwegian Training Center</td>
</tr>
<tr>
<td></td>
<td>46. Ocean Link Institute</td>
</tr>
<tr>
<td></td>
<td>47. Pentagon Maritime Foundation</td>
</tr>
<tr>
<td></td>
<td>48. PNTC Colleges</td>
</tr>
<tr>
<td></td>
<td>49. Philands Training School, Inc.</td>
</tr>
<tr>
<td></td>
<td>50. Philippine Center for Advanced Maritime Simulation and Training</td>
</tr>
<tr>
<td></td>
<td>51. Philippine Merchant Marine Academy – Manila</td>
</tr>
<tr>
<td></td>
<td>52. PHILNAVS Training Schools, Inc.</td>
</tr>
<tr>
<td></td>
<td>53. Philippine Seafarers Training Center</td>
</tr>
<tr>
<td></td>
<td>54. POS-FIL Maritime Training Center</td>
</tr>
<tr>
<td></td>
<td>55. Propellers Foundation – Maritime Science and Technology Resources</td>
</tr>
<tr>
<td></td>
<td>56. Protect Marine Deck and Engine Officers of the Philippines</td>
</tr>
<tr>
<td></td>
<td>57. Renaissance Training Center</td>
</tr>
<tr>
<td></td>
<td>58. Seabase Training Center for Watchkeeping</td>
</tr>
<tr>
<td></td>
<td>59. Seamac International Training Institute</td>
</tr>
<tr>
<td></td>
<td>60. Sea Quest Maritime Training</td>
</tr>
<tr>
<td></td>
<td>61. Seatech Maritime Training Center</td>
</tr>
<tr>
<td></td>
<td>62. Sharp Maritime Security Training Services</td>
</tr>
<tr>
<td></td>
<td>63. Southfield Maritime Training Foundation</td>
</tr>
<tr>
<td></td>
<td>64. Southern Institute of Maritime Studies – Manila</td>
</tr>
<tr>
<td>Region (€)</td>
<td>Maritime training center (€)</td>
</tr>
<tr>
<td>-------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>National Capital</td>
<td>65. The Maritime Training Center of the Philippines</td>
</tr>
<tr>
<td></td>
<td>66. Towers Maritime Training Center</td>
</tr>
<tr>
<td></td>
<td>67. Tram Integrated Training Solutions</td>
</tr>
<tr>
<td></td>
<td>68. Tonsberg International Training Center, Inc.</td>
</tr>
<tr>
<td></td>
<td>69. United Maritime Training Center, Inc.</td>
</tr>
<tr>
<td></td>
<td>70. United Seafarers Maritime Center, Inc.</td>
</tr>
<tr>
<td></td>
<td>71. Veritas Maritime Training Center</td>
</tr>
<tr>
<td></td>
<td>72. WSP Maritime Training Center</td>
</tr>
<tr>
<td></td>
<td>73. ZRC Training Center Phils.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>REGION</th>
<th>Maritime training center</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region I – Ilocos</td>
<td>1. Far East Maritime Foundation – Pangasinan</td>
</tr>
<tr>
<td></td>
<td>2. Pangasinan Merchant Marine Academy</td>
</tr>
<tr>
<td>Region III – Central</td>
<td>1. International Development and Environmental Shipping School</td>
</tr>
<tr>
<td></td>
<td>2. Maritime Academy of Asia and the Pacific Amosup Seamen’s Training Center</td>
</tr>
<tr>
<td></td>
<td>3. Wartsila Land and Sea Academy</td>
</tr>
<tr>
<td></td>
<td>4. Wartsila Land and Sea Academy</td>
</tr>
<tr>
<td>Region IV – Southern Luzon</td>
<td>1. NYK-FIL Maritime E-Training</td>
</tr>
<tr>
<td></td>
<td>2. Southern Institute of Maritime Studies – Cavite</td>
</tr>
<tr>
<td></td>
<td>3. SCM Training Center Corporation</td>
</tr>
<tr>
<td></td>
<td>4. Lyceum of the Philippines University – Maritime Training Center</td>
</tr>
<tr>
<td></td>
<td>5. University of Perpetual Help-Maritime Training Center</td>
</tr>
<tr>
<td>Region V – Bicol</td>
<td>1. Mariners Training Institute</td>
</tr>
<tr>
<td></td>
<td>2. Mariners Training Institute – CAMSUR</td>
</tr>
<tr>
<td>Region VI – Western Visayas</td>
<td>1. Aklan Polytechnic University</td>
</tr>
<tr>
<td></td>
<td>2. Excellence and Competency Training Center</td>
</tr>
<tr>
<td></td>
<td>3. Magsaysay Training Center – Iloilo</td>
</tr>
<tr>
<td></td>
<td>4. John B. Lacson Foundation</td>
</tr>
</tbody>
</table>

Shipping Industry Almanac 2016
| Region VI – Western Visayas | 5. St. Therese – MTC Colleges Tigbauan |
|                           | 6. New Simulator Center of the Philippines, Inc. – Iloilo |
|                           | 7. Philippine Center for Advanced Maritime Simulation and Training, Inc. – Iloilo |
|                           | 8. New Simulator Center of the Philippines, Inc. – Bacolod |
|                           | 9. VMA Global College and VMA Training Center |

| Region VII – Central Visayas | 1. Far East Maritime Foundation |
|                            | 2. Cebu Reliable Excellent Seafarers Training Center |
|                            | 3. Excellence and Competency Training Center – Cebu |
|                            | 4. Maritech Maritime Training Studies and Manning Services |
|                            | 5. New Simulator Center of the Philippines |
|                            | 6. Protect Marine Deck and Engine Officers of the Philippines |
|                            | 7. Philasia Maritime Services Training Center |
|                            | 8. University of Cebu – Maritime Training Center |
|                            | 9. University of the Visayas – Maritime Colleges |
|                            | 10. ZRC Training Center of the Philippines, Inc. |
|                            | 11. Southern Institute of Maritime Studies– Bohol |

| Region VIII – Eastern Visayas | 1. Netherlands Shipping Training Center |

| Region IX – Zamboanga Peninsula | 1. Zamboanga Maritime Training Center |

| Region X – Cagayan De Oro | 1. Northwestern Mindanao Institute of Technology |
|                          | 2. Surigao Education Center |
|                          | 3. Capitol University Maritime Training |

| Region XI – Davao | 1. DMMA College of Southern Philippines |
|                  | 2. Holy Cross of Davao College |
|                  | 3. MATS College of Technology – Davao |
|                  | 4. Maritech Maritime Training, Studies and Manning Services, Inc. |
|                  | 5. New Simulator Center of the Philippines, Inc.– Davao |
|                  | 6. Reyna Maritime Training Institute |

| Region XII – SOCCSARGEN | 1. MATS Training Center – Gen San |
|                        | 2. PhilSouth Maritime Training Center |
5.2 Safety and environmental issues

5.2.1 Implementation of the International Safety Management Code on board vessels

To underscore the government's commitment to further the maritime safety culture in the country, the International Safety Management (ISM) Code was officially adopted for implementation on domestic vessels of certain sizes required to be classed through the issuance of Flag State Administration Advisory No. 18 on 6 October 1998.

To address the needs and problems besetting the industry, specifically of maritime safety, the MARINA board issued the following memorandum circulars (MCs):

<table>
<thead>
<tr>
<th>MC No.</th>
<th>Year</th>
<th>Subject</th>
</tr>
</thead>
<tbody>
<tr>
<td>175</td>
<td>2002</td>
<td>Mandatory display of the maximum authorized passenger capacity for passenger-carrying bancas with open-deck accommodation and similar watercrafts</td>
</tr>
<tr>
<td>176</td>
<td>2002</td>
<td>Wearing or holdings of life jackets by passengers of motorized bancas and similar water transport carrying passengers</td>
</tr>
<tr>
<td>177</td>
<td>2002</td>
<td>Regulations amending Chapter XV of the 1997 PMMR on the registration, documentation and licensing of ships</td>
</tr>
<tr>
<td>178</td>
<td>2002</td>
<td>Amendments to MC No. 152 on the mandatory dry-docking of ships</td>
</tr>
<tr>
<td>193</td>
<td>2003</td>
<td>Rules on the implementation of maritime security measures for Philippines-registered ships engaged in international voyages</td>
</tr>
<tr>
<td>194</td>
<td>2003</td>
<td>Rules on the provision/installation of ship security equipment</td>
</tr>
<tr>
<td>197</td>
<td>2003</td>
<td>Revised rules to rationalize lifesaving appliances requirements under Chapter IX of the PMMRR 1997</td>
</tr>
<tr>
<td>203</td>
<td>2005</td>
<td>Rules governing the implementation of the Ship Safety Inspection System (SSIS)</td>
</tr>
<tr>
<td>205</td>
<td>2005</td>
<td>Amending MC No. 203 on the rules governing the implementation of the SSIS</td>
</tr>
<tr>
<td>2006-01</td>
<td>2006</td>
<td>Rules on accreditation of manufacturers/suppliers/servicing entities of lifesaving and other safety-related appliances/equipment</td>
</tr>
<tr>
<td>2006-03</td>
<td>2006</td>
<td>Revised guidelines in the accreditation of domestic shipping enterprises or entities</td>
</tr>
<tr>
<td>2006-04</td>
<td>2006</td>
<td>Amendment to MARINA Circular No. 2006-01 on the rules on accreditation of manufacturers/suppliers/servicing entities of lifesaving and other safety-related appliances/equipment</td>
</tr>
<tr>
<td>2006-06</td>
<td>2006</td>
<td>Revised guidelines in the issuance of a special permit (SP) to operate ships in the domestic trade due to meritorious circumstances</td>
</tr>
<tr>
<td>2009-13</td>
<td>2009</td>
<td>Additional penalty for passenger-carrying ships involved in a maritime accident/incident for the carriage of passengers in excess of the authorized passenger capacity</td>
</tr>
<tr>
<td>2009-16</td>
<td>2009</td>
<td>Rules requiring passenger-carrying motor bancas and all vessels 50 GT and below to submit valid/updated passenger insurance coverage before the issuance/renewal/extension of passenger ships safety certificates</td>
</tr>
<tr>
<td>2009-18</td>
<td>2009</td>
<td>Rules reiterating the mandatory PHP200,000 compulsory passenger insurance coverage to manifested passengers; indemnity of PHP 200,000 per unmanifested passenger to be shouldered by the shipowner/operator; PHP 50,000 monetary assistance to each survivor over and above medical, hospitalization and other incidental expenses; and imposing penalties for violation thereof</td>
</tr>
</tbody>
</table>
The MARINA board also issued the following related MCs and advisories (MAs):

<table>
<thead>
<tr>
<th>MC No.</th>
<th>Year</th>
<th>Subject</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-20</td>
<td>2009</td>
<td>Rules and regulations on survey, assignment of maximum load marking and certification of Philippine-registered motor boat without and with outriggers carrying passengers</td>
</tr>
<tr>
<td>2009-21</td>
<td>2009</td>
<td>Amendment to MC 2009-18, series of 2009, for ships carrying passengers over and above their authorized capacity</td>
</tr>
<tr>
<td>2009-25</td>
<td>2009</td>
<td>Rules and procedures on the approval of life jackets and life buoys for ships engaged in domestic shipping</td>
</tr>
<tr>
<td>2012-06</td>
<td>2012</td>
<td>Revised minimum safe manning for ships operating in Philippine domestic waters</td>
</tr>
<tr>
<td>2013-02</td>
<td>2013</td>
<td>Revised rules for the registration, documentation and deletion of ships operating in Philippine domestic waters</td>
</tr>
<tr>
<td>2013-04</td>
<td>2013</td>
<td>Omnibus rules on the issuance of SP for the temporary utilization of Philippine-registered ships whether trading overseas or domestic</td>
</tr>
<tr>
<td>2014-03</td>
<td>2014</td>
<td>Rules to govern the installation and implementation of ship radar reflector (SRR) on board ships engaged in domestic operations</td>
</tr>
<tr>
<td>2015-10</td>
<td>2015</td>
<td>Revised rules and regulations to implement the Code of Safe Practice for Cargo Stowage and Securing in domestic shipping</td>
</tr>
<tr>
<td>2015-11</td>
<td>2015</td>
<td>Revised rules and regulations to implement a safety management system for domestic shipping</td>
</tr>
</tbody>
</table>

The MARINA board also issued the following related MCs and advisories (MAs):

<table>
<thead>
<tr>
<th>MC No.</th>
<th>Year</th>
<th>Subject</th>
</tr>
</thead>
<tbody>
<tr>
<td>01-07</td>
<td>2007</td>
<td>Rules to implement double hull requirement under MARPOL 73/78, Annex I, as amended, on oil tankers operating in Philippine domestic waters</td>
</tr>
<tr>
<td>02-08</td>
<td>2007</td>
<td>Rules to implement master’s oath of voyage</td>
</tr>
<tr>
<td>03-08</td>
<td>2007</td>
<td>Rules and regulations to implement the Code of Safe Practice for Cargo Stowage and Securing in domestic shipping</td>
</tr>
<tr>
<td>08-08</td>
<td>2008</td>
<td>Rules to implement safety measures for passenger ships with open deckhouse</td>
</tr>
<tr>
<td>01-09</td>
<td>2009</td>
<td>Rules governing the mandatory marine insurance to cover legal liabilities arising out of any maritime-related accidents</td>
</tr>
<tr>
<td>12-09</td>
<td>2009</td>
<td>Amendment to MARINA circular nos. 2009-01 and 2009-03 on the rules governing the mandatory marine insurance to cover legal liabilities arising out of any maritime-related accidents</td>
</tr>
<tr>
<td>17-09</td>
<td>2009</td>
<td>Notification on the change of principal office address</td>
</tr>
<tr>
<td>19-09</td>
<td>2009</td>
<td>Amendment to MARINA circular nos. 2009-01 and 2009-03 on the rules governing the mandatory marine insurance to cover legal liabilities arising out of any maritime-related accidents</td>
</tr>
<tr>
<td>24-09</td>
<td>2009</td>
<td>Accreditation and/or authorization of organizations for purposes of classification of Philippine-registered ships in the domestic trade and supervision and audit of accredited organizations</td>
</tr>
<tr>
<td>03-11</td>
<td>2010</td>
<td>Revised rules and regulations to implement the Code of Safe Practice for Cargo Stowage and Securing in domestic shipping</td>
</tr>
<tr>
<td>MA No.</td>
<td>Year</td>
<td>Subject</td>
</tr>
<tr>
<td>-------</td>
<td>-------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>01-07</td>
<td>2007</td>
<td>Application for authority to allow marine surveyors, supercargo, shipowner representatives and other persons on board ships in the domestic trade</td>
</tr>
<tr>
<td>02-07</td>
<td>2007</td>
<td>Allowing certain personnel to command fishing vessels irrespective of the limitation in their license</td>
</tr>
<tr>
<td>03-07</td>
<td>2007</td>
<td>Extension of the implementation of the MARINA Advisory Nos. 2006-004 (Acquired Recurrency Training for Seafarers on board Ships Engaged in Domestic Trade) and 2006-005 (Qualification Document Certificate (QDC) Requirement of All Domestic Seafarers)</td>
</tr>
<tr>
<td>05-07</td>
<td>2007</td>
<td>Compulsory passenger insurance coverage</td>
</tr>
<tr>
<td>06-08</td>
<td>2008</td>
<td>Implementation of IMO Resolution A.955(23) – amendments to the Principles of Safe Manning Resolution A.890 (21)</td>
</tr>
<tr>
<td>11-08</td>
<td>2008</td>
<td>Reports on marine casualties and incidents</td>
</tr>
<tr>
<td>04-09</td>
<td>2009</td>
<td>Marine Circular 2009-01 on the rules governing the mandatory marine insurance to cover legal liabilities arising out of any maritime-related accidents</td>
</tr>
<tr>
<td>07-09</td>
<td>2009</td>
<td>Measures to prevent and suppress the acts of piracy and armed robbery against ships off the coast of Somalia</td>
</tr>
<tr>
<td>11-09</td>
<td>2009</td>
<td>Practical measures to survive as a hostage in a piracy attack</td>
</tr>
<tr>
<td>12-09</td>
<td>2009</td>
<td>Best management practices to deter piracy in the Gulf of Aden and off the coast of Somalia</td>
</tr>
<tr>
<td>13-09</td>
<td>2009</td>
<td>Prohibition of mandatory sale of additional insurance policy to passengers prior to boarding</td>
</tr>
<tr>
<td>14-09</td>
<td>2009</td>
<td>Prevention and control of Influenza A (H1N1) in MARINA</td>
</tr>
<tr>
<td>15-09</td>
<td>2009</td>
<td>Submission of notice to MARINA whenever a ship intends to pass through the coast of Somalia or Gulf of Aden or Horn of Africa or areas of enhanced risk</td>
</tr>
<tr>
<td>18-09</td>
<td>2009</td>
<td>Influenza A (H1N1) prevention and control in the different transport facilities</td>
</tr>
<tr>
<td>29-09</td>
<td>2009</td>
<td>Moratorium on accreditation/renewal of accreditation of manufacturers/suppliers/servicing entities of lifesaving and other safety-related appliance/equipment</td>
</tr>
<tr>
<td>31-09</td>
<td>2009</td>
<td>Mandatory carriage of ship and crew documents and certificates on board ships engaged in domestic voyages/operations</td>
</tr>
<tr>
<td>01-10</td>
<td>2010</td>
<td>Additional requirements for newly acquired ships for domestic operation, whose operation in the country of origin is limited to smooth water</td>
</tr>
<tr>
<td>11-03</td>
<td>2011</td>
<td>Guidelines in the implementation of MARINA Circular no. 2009-05 - legalization of unregistered motor bancas operating in Philippine waters</td>
</tr>
<tr>
<td>07-12</td>
<td>2012</td>
<td>Reiteration of MARINA policy on prohibition of use of unregistered or colorum vessels or motorized bancas for tourism, island hopping or sight-seeing purposes</td>
</tr>
<tr>
<td>09-12</td>
<td>2012</td>
<td>Safety precaution on the movement of merchant marine vessels and fishing vessels within the falling area of the satellite Kwangmyongsong-3</td>
</tr>
<tr>
<td>10-12</td>
<td>2012</td>
<td>Requirement to prominently display notices showing entitlement of senior citizens to a 20% discount and exemption from VAT, as applicable, and other related concerns as provided under RA No. 9994, the Expanded Senior Citizen Act of 2010, and its implementing rules and regulations (further amendments to RA No. 7432, as amended by RA No. 9257)</td>
</tr>
</tbody>
</table>

Shipping Industry Almanac 2016
5.2.2 Safety rules regarding manning

The MARINA is the agency tasked with implementing the rules and regulations on minimum manning requirements for domestic and international vessels and fishing vessels. In adopting the Table of Minimum Safe Manning prescribed, the MARINA recognized the principles of safe manning under IMO Resolution No. A. 481 (XII). Safe manning under these rules will therefore mean that the crew includes sufficient officers and ratings with appropriate skills and experience to ensure compliance with the principles. Furthermore, MARINA will issue a certificate of inspection with each vessel's minimum safe manning requirements, indicating the numbers and grades of the personnel required to be carried, together with any special conditions or other remarks.

5.2.3 Special regulations on safety and the environment

The MARINA implements special regulations on safety and the environment by issuing various MCs. It has also organized the Vessel Safety Inspection System (VSIS) to help to ensure vessel seaworthiness. The system provides a manual of procedures for the conduct of periodic vessel safety inspections by authorized and trained government inspectors.
5.3 Registration

5.3.1 Registration requirements

The Maritime Safety Office Ship Registration and Licensing Division under MARINA governs vessel registration in the country. New foreign-built vessels, locally built vessels and vessels leased from foreign nationals for a period of time are required to submit the items listed in section 5.3.2 below for registration.

In addition to the above, the Bureau of Customs (BOC) and the MARINA have signed a memorandum of agreement (MOA) dated 15 August 2007, which requires vessel owners to submit a certificate of conversion (COC) as clearance for payment of duties and taxes from the BOC as a requirement for registration of imported vessels in the MARINA. The MOA covers foreign and imported ships and other vessels converted to the Philippine flag or registry and excludes military or government seacraft or vessels.

Imported ships and vessels previously registered with the MARINA will also be subject to a post-entry audit by the BOC within three years to check whether there have been any deficiencies in the duties and taxes.

5.3.2 Ship registration procedure

Vessels should be registered with the Maritime Safety Office Ship Registration and Licensing Division. The office provides a checklist of items to be completed and presented with regard to the application for registration. Four types of registration are accepted and processed by the office. The official requirements of such applications are as follows:

New foreign-built vessels:
- Application for certificate of ownership (CO) or certificate of vessel registration (CVR)
- Approved plans by MARINA under the Shipyard Regulation Office (SRO)
- Certificate from the classification society that supervised or managed the construction of the vessel
- Domestic Shipping Office (DSO) approval for importation
- Clearance from DSO for registration of the vessel
- Certificate from the Maritime Shipping Office (MSO) regarding the BOC release
- Builder's certificate
- Admeasurement certificate
- Affidavit of ownership
- Company's tax identification number
- Proof of payment of import duties and taxes from the BOC
- Clearance of the vessel's name from the Maritime Information System Office (MISO)

New building, alteration or conversion of vessels locally:
- Application for CO or CVR
- MARINA approval to acquire through local construction
- Approval of plans before construction, alteration or conversion under the SRO
- Certificate in evidence of the fact that the vessel is built in accordance with approved plans (SRO)
- Admeasurement certificate
- Builder's certificate
- Affidavit of ownership
- If the applicant is a new company or a corporation, accreditation from DSO
- Company's tax identification number
- Proof of remittance to the Bureau of Internal Revenue (BIR) of the 10% VAT from the builders
- Clearance of the vessel's name from MISO

Certificate of vessel registration for bareboat chartered vessels:
- Application for CVR
- Approval of DSO of the bareboat charter
• Clearance from DSO to register the vessel
• Proof of payment of BIR documentary stamp tax on charter property
• Certificate from MSO regarding the BOC’s release
• Approval of plans from SRO
• Admeasurement certificate
• Company’s tax identification number
• Clearance of the vessel’s name from MISO

To protect its interests, a mortgagee of a bareboat chartered vessel may file a precautionary notice with the MARINA.

Change of ownership of vessel or local sale of vessel:
• Application for CO or CVR
• Deed of absolute sale with board resolution, if the seller is a corporation
• Clearance from DSO if the vessel is imported
• Surrender of original CO or CVR (if lost, submit affidavit of loss duly notarized)
• Check or verify if the vessel is mortgaged; if mortgaged, proponent is to secure the consent of mortgage
• Company’s tax identification number

5.3.3 Parallel registration
A Philippine shipping company may bareboat charter foreign vessels, and this should be registered with the Maritime Safety Office Ship Registration and Licensing Division. Submission of a certificate of consent by the original port of registry is required.

5.3.4 Requirements for the officers and crew serving on vessels
Philippine-registered ships are manned wholly by Philippine officers and ratings, except as authorized by the MARINA. Masters, officers and ratings on board Philippine-registered ships should be qualified, competent and medically fit in accordance with the rules and regulations. Crew members who are performing watchkeeping duties have to meet the certification requirements of the STCW 95, and those not performing watchkeeping duties have to attend basic safety training.

Masters and first officers for voyages (coastwise, bay, river) must be holders of a ship radio mobile operator’s certificate issued by the National Telecommunications Commission (NTC). Vessels certified by a recognized classification society and/or the NTC for compliance with the Global Maritime Distress and Safety System (GMDSS) requisite are not required to have a radio officer on board.

Ships should have medical personnel on board in proportion to the number of passengers and the duration of the voyage. Such medical practitioners and paramedics have to attend an orientation and/or refresher course on public health in relation to ship sanitation conducted by the health authority.

Special manning requirements apply only to fishing vessels engaged in international voyages.

5.3.5 International conventions regarding registration
The Philippines is a member of the IMO of the United Nations (UN), an agency tasked to improve maritime safety and reduce pollution from ships.

The Philippines is also part of the Brunei-Indonesia-Malaysia-Philippines-East ASEAN Growth Area (BIMP-EAGA), granting interisland or coastwise vessels an EAGA special permit, which is renewable yearly. By virtue of the BIMP-EAGA, the Philippine-registered ship that will engage in international trade within the BIMP-EAGA is exempt from the requirement that domestic vessels serve the domestic trade for at least one year. Furthermore, the special permit may be used during the whole duration of the charter period. The vessels are also required to comply with the ISM Code.

5.3.6 Special requirements and rules relating to registration
Philippine shipping companies that own, manage or operate Philippine-registered vessels plying international...
waters should submit the following documents for special registration:

- A MARINA certificate of accreditation
- A certified copy of the articles of incorporation, duly registered with the Securities and Exchange Commission (SEC), in the case of a corporation or partnership, or a certificate of registration of the firm or business name with the Bureau of Domestic Trade, in the case of single proprietorship
- A surety bond of PHP200,000 (€3,650) from a reputable bonding company, duly accredited by the Insurance Commission, the validity of which should be coterminous with the validity of registration
- A copy of the certificate of approval of the bareboat charter
- A Philippine Coast Guard certificate of registration
Poland

1. Tax

1.1 Tax facilities for shipping companies

1.1.1 General corporate tax rule

Resident companies (including companies in the process of incorporating or registering) are subject to corporate tax on their worldwide income and capital gains. Nonresident companies are taxed only on income earned in Poland. A company is resident in Poland for tax purposes if it is incorporated in Poland or managed in Poland. For this purpose, the concept of management is broadly equivalent to the effective management test in many treaties and is typically deemed to be exercised where the board of directors (or equivalent) meets. A branch of a nonresident company is generally taxed according to the same rules as a Polish company, but only on its Polish-source income. Partnerships are tax transparent except for Polish limited joint-stock partnerships that are treated as taxpayers subject to corporate income tax (CIT). Foreign partnerships are treated as CIT taxpayers in their countries.

The general corporate tax rate is 19%. In general, shipping companies are subject to taxation under the ordinary corporate tax regime.

From 1 January 2015, a new mechanism was introduced for CIT taxation of taxpayers in Poland on their income from controlled foreign companies (CFCs) - income of companies subject to more favorable taxation in other countries (including countries that apply unfair tax competition). The solution is to prevent diversion from Poland by Polish taxpayers of income from specific sources to subsidiaries registered in more favorable tax regimes.

In general, the rules on taxation of income of CFCs are intended to impose tax on income received by shareholders of these companies that are Polish tax residents. Thus, if the CIT taxpayer controls the foreign company, it may be required to pay income tax not only on its own income, but also on the income of the foreign company.

Under most tax treaties, income from an overseas representative office or permanent establishment of a Polish resident company is exempt from tax. Alternatively, certain tax treaties grant a tax credit for the foreign tax imposed on foreign-source income.

Income tax paid on Polish territory by taxpayers referred to in Article 3.2 (lack of establishment or management) from revenue such as the due fees for the export of goods and passengers admitted for transportation in Polish harbors by foreign enterprises of maritime navigation, with the exception of cargo and passengers, shall be equal to 10% of these revenues.

1.1.2 The Polish tonnage tax system

The Polish tonnage tax scheme, effective 1 January 2007, allows for maritime activities to be eligible for tonnage tax. Please note that only certain taxpayers may choose the tonnage tax regime - there are specific statutory conditions to be met.

The tonnage tax rate is 19% of the taxable base, and by choosing this type of taxation, no CIT will be applicable with regard to this taxpayer.

1.2 Tax treaties

Poland has double tax treaties in place with the following countries:

Albania, Algeria, Armenia, Australia, Austria, Azerbaijan, Bangladesh, Belarus, Belgium, Bosnia and Herzegovina (agreement with Yugoslavia), Bulgaria, Canada, Chile, China, Croatia, Cyprus, Czech Republic, Denmark, Egypt, Estonia, Ethiopia, Finland, France, Georgia, Germany, Greece, Guernsey, Hungary, Iceland, India, Indonesia, Iran, Ireland, Isle of Man, Israel, Italy, Japan, Jersey, Jordan, Kazakhstan, Korea (South),
Kuwait, Kyrgyzstan, Latvia, Lebanon, Lithuania, Luxembourg, Macedonia, Malaysia, Malta, Mexico, Moldova, Mongolia, Montenegro (agreement with Yugoslavia), Morocco, Netherlands, New Zealand, Nigeria,* Norway, Pakistan, Philippines, Portugal, Qatar, Republic of South Africa, Romania, Russia, Saudi Arabia, Serbia (agreement with Yugoslavia), Singapore, Slovak Republic, Slovenia, Spain, Sri Lanka, Sweden, Switzerland, Syria, Tajikistan, Thailand, Tunisia, Turkey, Ukraine, United Arab Emirates, United Kingdom, United States, Uruguay,* Uzbekistan, Vietnam, Zambia* and Zimbabwe.
*The treaty has not yet entered into force.

1.3 Freight tax
There are no freight taxes levied in Poland.

1.4 Consumption tax (Polish value-added tax)
Value-added tax (VAT) is imposed on goods sold and services rendered in Poland, exports, imports, and acquisitions and supplies of goods within the European Union (EU). Poland has adopted most EU VAT rules. Effective from 1 January 2011, the standard rate of VAT is 23%. Lower rates may apply to specified goods and services. The 0% rate applies to exports and supplies of goods within the EU. Certain goods and services are exempt. Examples of goods and services taxable at 0% include supplies of certain sailing vessels and international transport and related services.
Amendments of the Polish VAT law are planned, yet no significant impact on the shipping industry has been confirmed.

2. Human capital

2.1 National labor law affecting seafarers
The Law on Labour on Sea-Going Commercial Ships applies to crew members of registered ships in Poland.

3. Corporate structure

3.1 Most commonly used legal structures for shipping activities
A majority of major shipping companies adopt a limited liability legal form: spółka z ograniczoną odpowiedzialnością (limited liability company) is the prevailing form and spółka akcyjna (public limited company) is the second most popular form.

4. Grants and incentives

4.1 Specific and/or general subsidies available to shipping companies
There are no specific or general subsidies available to shipping companies in Poland other than the tonnage tax regime. As far as grants and incentives are concerned, general subsidies for R&D and increased energy efficiency are available.

5. General information

5.1 Infrastructure

5.1.1 Major ports
Poland is geographically in a favored location open to the Baltic Sea. Polish seaports are situated on the shortest path connecting Scandinavia with Central and Southern Europe. The number of ports on the Polish
coastline is relatively high; however, two groups of seaports stand out: the Port of Szczecin-Świnoujście and ports in Gdynia and Gdansk. Cargo traffic in Polish ports is growing year to year, and in 2014 it amounted to approximately 69 million tons, which was 6.9% higher than in the previous year. The cargo categories with highest weight value are: dry bulk at 38.8% of total cargo traffic, liquid bulk at 23.3% and large containers at 22.5%. The number of ship arrivals at seaports in 2014 amounted to 17,384 (ships of gross tonnage (GT) of 100 and more).

As stated in the Trans-European Transport Networks (TEN-T) program, three main Polish ports (Gdynia, Gdansk and Szczecin-Świnoujście) are considered crucial for the future development of European transport. All ports are key links in the core network corridor: Baltic to the Adriatic, connecting the southern and northern EU countries.

Major ports in Poland:
- The Port of Gdansk is a major international transportation hub situated in the central part of the southern Baltic coast, which ranks among Europe’s fastest growing regions. The Port of Gdansk comprises two principal sections with naturally diverse operational parameters: the inner port stretched along the Dead Vistula and the port canal, and the outer port affording direct access to the Gulf of Gdansk. For additional information, go to: portgdansk.pl/en.
- The Port of Gdynia is a modern port specializing in handling general cargo, based on a well-developed network of multimodal connections including hinterland, regular short sea shipping lines as well as ferry connections (ferry terminal). The quays at the Port of Gdynia are 17,700 meters long, of which over 11,000 are used for handling operations. For additional information, go to: port.gdynia.pl/en.
- The ports of Szczecin-Świnoujście: the ports in Szczecin-Świnoujście are among the largest port groups in the Baltic Sea region. They are situated on the shortest path connecting Scandinavia with Central and Southern Europe. They also lie on the shortest seaway connecting Finland, Russia, Lithuania, Latvia and Estonia with Germany and Western Europe. Ports in Szczecin-Świnoujście are the closest seaports for the areas of western and southwestern Poland. For additional information, go to: port.szczecin.pl/en.

Note: Gdynia and Gdansk form a single metropolitan area, but the ports are administrated separately. Szczecin and Świnoujście are closely located cities with a combined port authority.

5.1.2 Port facilities
Among others, the following support facilities are available in these ports:
- Oil terminal in Gdansk
- Ferry terminals
- Shipyard (construction, maintenance and repair)
- Docking
- Freight forwarding (including intermodal)
- Public disembark infrastructure
- Towing
- Waste handling
- Storage and terminals (e.g., liquid bulk cargo, oversized cargo, ro-ro, dangerous goods)
- Cranes for every size of vessel
- Business incubation services at ports
- Duty Free zones
- Liquid natural gas (LNG) terminal in Świnoujście

In recent years, the ports conducted several infrastructural projects that improved accessibility of quays (mostly in favor of road transport but also a few for intermodal). Further, the EU financed investments that modernized quay infrastructure.

The EU regulations1 foresee further infrastructure development regarding:
- Port interconnections and (further) development of multimodal platforms in Gdynia and Gdansk
5.1.3 Support services for the shipping industry
Among others, the following supporting facilities for the shipping industry are easily available:

- Maritime law services
- Insurance brokers for the shipping industry
- Cargo handling services
- Bunkering services
- Stevedore services

5.1.4 Maritime education
Two main maritime universities in Poland are as follows:

- Gdynia Maritime University has four faculties: Marine Electrical Engineering, Marine Engineering, Navigation, and Entrepreneurship and Commodity Science. All faculties enable the university to develop and perform its scientific and didactic activities in 7 fields of study in 30 specializations. All are authorized to grant a doctorate degree.
  
  For more information, go to: www.am.gdynia.pl/en

- The Maritime University of Szczecin is a technical school offering three faculties (Navigation, Marine Engineering, and Economics and Transport Engineering) in nine specializations. For more information, go to: www.am.szczecin.pl/en

5.2 Safety and environmental issues

5.2.1 Implementation of the International Safety Management Code
All passenger ships that sail internationally and all oil tankers, chemical tankers, gas carriers, bulk carriers and cargo high-speed craft with a total weight exceeding 500 tons are required to implement the International Safety Management (ISM) Code. ISM Code applies also to other cargo ships and mobile offshore drilling units of 500 GT and upwards. Other domestic vessels that are not obliged to implement the ISM Code are also strongly requested to comply with the ISM Code on a voluntary basis.

The Polish Register of Shipping is entitled to provide services to ship operators, including certification of ship safety management systems in accordance with the ISM Code. PRS activities cover:

- Ship safety management system documentation assessment
- Audit of the ship operator's office and/or ship
- Issuance of the relevant certificate

5.2.2 Special regulations on safety and the environment
Poland is a party to the International Convention for the Prevention of Pollution from Ships (MARPOL), which is an important international regulation for preventing pollution to the marine environment by ships from operational or accidental causes, and the International Convention for the Safety of Life at Sea (SOLAS), which regulates the security of life at sea.

On 1 July 2015, Regulation (EU) 2015/757 of the European Parliament and of the Council on the monitoring, reporting and verification of carbon dioxide emissions from maritime transport and amending Directive 2009/16/EC came into force. The Machinery and Equipment Department of the Polish Register of Shipping, with the purpose of ensuring compliance of ships with the regulation requirements, offers shipowners:

- Technical advisory services
- Approval of a ship's technical documentation
- Certification of additional fuel measurement devices and systems as specified in the regulation annex in method C or the CO2 emissions measurement systems defined in method D

5.3 Registration

5.3.1 Registration requirements
Article 27 of the Maritime Code generally requires all ships having Polish nationality to be registered in the Polish registry of ships. Also, the maritime authority stipulates the rights and obligations of Polish ships.

5.3.2 Parallel registration
Parallel registration is prohibited per Article 27 of the Maritime Code.
Portugal

1. Tax

1.1 Tax facilities for shipping companies

Corporate income tax

The standard corporate income tax (IRC) rate is 21%. The standard IRC rate is reduced to 16.8% in the Azores, with exceptions for certain activities. A reduced 17% rate applies to the first €15,000 of taxable profit computed by small- and medium-sized companies (13.6% for the Azores). In addition, a municipal surcharge is due, although not imposed on certain municipalities, of up to 1.5% of taxable profits (income before deduction of tax losses, if any). An additional state surcharge, which is cumulative with the municipal surcharge, is also applicable in all Portuguese territory, including the Azores and Madeira (although in Madeira it is referred to as a “regional surcharge”). This surcharge is levied at the rate of 3% for taxable profit exceeding €1.5 million and up to €7.5 million, 5% for taxable profit exceeding €7.5 million and up to €35 million, and 7% for the taxable profit exceeding €35 million.

IRC and applicable surcharges apply to companies and other corporate entities, including public enterprises, cooperatives and non-profit organizations. Branches of foreign companies in Portugal are subject to the same tax regime as resident entities.

However, under the Portuguese IRC Code, the Portuguese-sourced profits of a nonresident shipping company derived from the exploitation of ships may be exempt, provided there is reciprocity towards Portuguese companies and such reciprocity is recognized by the Minister of Finance. Such recognition has already been granted to several companies. An exemption may also be available under double tax treaties.

The IRC Code allows for an exemption of 50% of the capital gains realized with the disposal of tangible fixed assets, investment properties or biological assets for transforming if the sales' proceeds are reinvested in the acquisition or construction of other fixed assets, investment properties or biological assets for transforming in the year of sale, in the previous year or in the two subsequent years after the sale.

As for national merchant shipping companies, the Tax Incentives Code (EBF) states that only 30% of profits arising exclusively from maritime transport activity are subject to tax.

Stamp duty

Foreign financing operations for the acquisition of ships, containers and other equipment entered into by merchant shipping companies are exempt from stamp duty, even if such financing is obtained through national financial institutions.

Madeira International Shipping Register

Currently, a favorable tax regime is in force for income arising from qualifying shipping activities carried out within the Madeira International Business Centre (MIBC). This regime was approved as in line with European Union (EU) state aid rules and grandfathered by the European Commission.

The Madeira International Shipping Register (RIN-MAR) applies to companies licensed and incorporated in the MIBC from 1 January 2015 to 31 December 2020, which may benefit from the tax regime currently in force in the MIBC. Shipping companies that were licensed to operate within the MIBC under the previous tax regimes may fall under the current tax regime in force in the MIBC provided they meet all the conditions foreseen in that regime. The current regime will be in place until 31 December 2027.

The MIBC tax regime applies only to income obtained by:

- Entities licensed from 2015 until 31 December 2020 or by entities licensed under the previous tax regimes in force until 2014 and effectively transferred to the current regime to operate within the MIBC
- Entities carrying on transportation activities, provided that such activities are carried out within the scope of

1.2 Other aspects

The Tax Incentives Code (EBF) includes a special tax regime for certain activities carried out in the MIBC. This regime provides for reduced tax rates and tax holidays for certain activities, including maritime transport and logistics services.

The code also includes provisions for the sharing of benefits with local communities and for the promotion of sustainable development.
the MIBC, except for income arising from the transport of passengers or cargo between Portuguese ports. According to the MIBC regime, companies benefit from a reduced IRC rate of 5% until 31 December 2027. The overall tax benefits granted to companies licensed to operate in the MIBC are, however, capped at one of the following amounts:
  - 20.1% of the annual gross value added
  - 30.1% of the total annual labor costs
  - 15.1% of the annual turnover

The entities that wish to enjoy the benefits of this special regime will have to initiate their activity within six months, in the case of international services, or one year, in the case of industrial activities or maritime registration, as from the date of license. They must also comply with one of the following requirements:
  - Creation of one to five jobs in the first six months of activity and a minimum investment of €75,000 in the acquisition of tangible or intangible fixed assets during the first two years of activity
  - Creation of six or more jobs in the first six months of activity

These entities will be subject to a limitation on the benefits to be granted through the application of ceilings on taxable income, according to the following terms:
  - €2.73 million for the creation of one to two jobs
  - €3.55 million for the creation of three to five jobs
  - €21.87 million for the creation of 6 to 30 jobs
  - €35.54 million for the creation of 31 to 50 jobs
  - €54.68 million for the creation of 51 to 100 jobs
  - €205.50 million for the creation of more than 100 jobs

The application of these ceilings shall be undertaken according to the number of jobs at the end of each year of activity.

On 18 August 2009, an administrative order was issued by the Regional Secretary for the Plan and Financing of the Autonomous Region of Madeira, which defines several situations where a job exists for the purposes of ascertaining the applicable ceiling on an entity operating in the MIBC. The definition of job contemplated in this order is very broad. The aim of this broad definition is to grant flexibility to the entities operating in the MIBC to have an appropriate number of jobs connected with MIBC activities, allowing these entities to achieve the desirable ceiling of taxable income.

Dividends and interest paid out of shareholder loans derived by foreign shareholders are exempt from tax, provided the shareholders are not resident in a blacklisted jurisdiction. Portuguese shareholders that hold a participation in shipping companies may also benefit from a tax exemption on these incomes.

Entities investing in companies licensed in the MIBC are generally entitled to a total exemption from Portuguese withholding tax on most types of interest, royalty and service payments. Portugal has an extensive double tax treaty network that may entitle reduced withholding tax rates on dividends paid to nonresident entities eligible under such treaties.

Entities operating in the MIBC benefit from a relief, up to 80%, on several other taxes and surcharges applicable in Portugal, namely, stamp duty, property transfer tax, municipal property tax, and regional and municipal surcharges.

The crew members of the vessels registered in the RIN-MAR falling within the scope of the MIBC will be exempt from personal income tax (IRS). Such exempt income, however, will count in the determination of the progressive rates of the tax on income not so exempted.

1.2 Tax facilities for seafarers

As stated above, crew members who are registered in the RIN-MAR and who are within the scope of the MIBC
are exempt from IRS.

1.3 **Tax treaties and place of effective management**
Portugal has concluded several bilateral tax treaties for the avoidance of double taxation and the prevention of fiscal evasion regarding taxes on income and capital, which are based on the Organisation for Economic Co-operation and Development (OECD) model convention, with the following jurisdictions: Algeria, Austria, Barbados*, Belgium, Brazil, Bulgaria, Canada, Cape Verde, Chile, China, Colombia, Croatia*, Cuba, Cyprus, Czech Republic, Denmark, Estonia, Ethiopia*, Finland, France, Georgia*, Germany, Greece, Guinea-Bissau, Hong Kong, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Japan, Korea (South), Kuwait, Latvia, Lithuania, Luxembourg, Macau, Malta, Mexico, Moldova, Morocco, Mozambique, Netherlands, Norway, Pakistan, Panama, Peru, Poland, Qatar, Romania, Russian Federation, San Marino*, Senegal*, Singapore, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland, Timor-Leste*, Tunisia, Turkey, Ukraine, United Arab Emirates, United Kingdom, United States of America, Uruguay and Venezuela.

*Treaty already signed but not yet in force.

Based on the OECD model convention, the place of effective management determines the country that will have the right to tax international shipping operations.

1.4 **Special vessel registration tax benefits for the shipowner**
See section 1.1 above.

1.5 **Changes to tax law anticipated in the near future**
No major changes are expected to Portuguese tax law in the near future regarding shipping activities.

1.6 **Tonnage tax regime**
Portugal does not have a tonnage tax regime.

2. **Human capital**

2.1 **Formalities for hiring personnel**
According to Portuguese law, an individual to be hired as a seafarer must be registered as a “maritime officer” and hold a valid maritime certificate.

Furthermore, the employment agreement must be drawn up in writing and must contain specific clauses, including the professional category and remuneration.

2.2 **National labor law**
In general, national labor law applies to vessels registered in Portugal.

2.3 **Collective labor agreements**
According to Portuguese labor law, collective labor agreements (CLAs) take precedence over labor law if they are more favorable.

Several CLAs have been concluded, including the CLA with the Union of Maritime Employers, which have special regulations. CLAs differ among employers.

2.4 **Treaties relating to social security contributions**

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EU social security regulations

Under the EU social security regulations, a seafarer who is an EU national or certain persons who are legally resident in the EU and employed on board a vessel flying the flag of an EU Member State will normally be subject to the social security legislation of that Member State. Certain exceptions apply to this general rule.

Bilateral agreements

Portugal has signed bilateral social security agreements with several non-EU countries, although the terms
of the agreements vary considerably. In order to determine an individual's liability or benefit entitlement, it is important to consult the particular agreement relating to the individual's home country.

To prevent double social security taxes and to ensure benefit coverage, Portugal has concluded bilateral agreements with the following countries: Andorra, Argentina, Australia, Brazil, Canada – Quebec, Cape Verde, Chile, Moldova, Morocco, Tunisia, Turkey, Ukraine, United States of America, Uruguay and Venezuela.

Bilateral agreements have also been signed with Algeria, Angola, Bermuda, Guinea, India, Israel, Japan, Mozambique, Philippines, Russia, São Tomé and Principe, South Africa and South Korea, but they are not yet in force.

2.5 Manning issues with flying the Portuguese flag
Please see section 1.1 above, regarding the advantages of the RIN-MAR.

3. Corporate structure

3.1 Most commonly used legal structure(s) for shipping activities
Portuguese-resident companies typically adopt two main different structures or types:

- Private limited companies (Lda)
  - Share capital: the minimum share capital is €1 for an Lda with a sole shareholder and €2 for Ldas with two or more shareholders. The minimum nominal value that each quota should have is €1.
  - Shareholder(s): Ldas have a minimum of two, but it is possible to incorporate a sole-shareholder Lda.
  - Management: Ldas should have at least one manager, appointed in the articles of association or by the general meeting of shareholders.
  - Statutory auditor: a statutory auditor or board may have to be appointed if certain thresholds are met.

- Joint stock corporation (SA)
  - Share capital: the minimum share capital is €50,000, divided into shares, each with a minimum nominal value of €0.01.
  - Shareholder(s): SAs should have at least five shareholders, except when not required by law (for companies incorporated in the MIBC, one shareholder is allowed).
  - Management: a SA's management board comprises at least three directors. In some cases, it is possible to have one single director.
  - Statutory auditor: a statutory auditor or board must be appointed.

Nevertheless, it is important to stress that companies licensed to operate within the MIBC are not subject to the minimum share capital rules, although the shareholders must comply with the remaining requirements.

3.2 Taxation of profit distribution
As a general rule, a 25% withholding tax rate applies to dividends paid to nonresidents. Nevertheless, the Portuguese tax law foresees a withholding tax exemption regime under which dividends paid to a qualifying shareholder in the EU or EEA or a treaty country will not be subject to withholding tax, provided that certain conditions are met (such as percentage held and holding period, as well as subject to tax requirement).

In cases where the withholding tax exemption regime aforementioned is not applicable, companies resident in countries that have entered into a double tax treaty with Portugal may benefit from reduced withholding tax rates that can range from 5% to 15%. These reductions of withholding tax may be obtained through up-front or refund procedures.

4. Grants and incentives

Financial and tax grants may be available in certain circumstances and conditions for shipping-related
activities and investments. A case-by-case analysis should be performed.

5. General information

5.1 Infrastructure

5.1.1 Major ports
The major ports are:
- Angra do Heroismo
- Aveiro
- Figueira da Foz
- Funchal (Madeira)
- Horta (Azores, Faial Island)
- Leixões (Porto)
- Lisbon
- Portimão (Algarve)
- Sesimbra
- Setúbal
- Sines
- Viana do Castelo

5.1.2 Port facilities
The following facilities are available:
- Maintenance and repair
- Docking
- Storage
- Quayside equipment, parking and security

5.1.3 Airports close to the major port(s)
The following airports are close to the major ports:
- Faro Airport (Faro)
- Funchal (Funchal)
- Horta (Horta)
- Lisbon (Lisbon)
- Porto (Leixões)

5.1.4 Support services for the shipping industry
The following support services for the shipping industry are readily available:
- Banks with a shipping desk
- Consulting firms specializing in shipping
- Maritime law services
- Insurance brokers for the shipping industry

5.1.5 Maritime education
The major maritime educational institutions are:
- Escola Náutica de Recreio (near Lisbon)
- Escola Náutica Infante D. Henrique (civil) (near Lisbon)
- Marinha de Guerra Portuguesa (military) (Lisbon)
Romania

1. Tax

1.1 General corporate tax rule

Romanian shipping companies are subject to the same corporate income tax regime that applies to all other Romanian legal entities.

Romanian resident companies are subject to 16% corporate income tax on their worldwide taxable profits. Profits are computed as the difference between the total income and total expense booked in the company’s accounts, subject to certain adjustments (e.g., nontaxable revenues are subtracted and nondeductible expenses are added). Generally, expenses are treated as deductible for tax purposes if they are incurred for the purpose of carrying on the economic activity.

Nonresident companies are taxed only on income earned in Romania. A branch or permanent establishment of a nonresident company is generally taxed according to the same rules as a Romanian company, but only on its Romanian-source income.

Starting in 2016, nonresident companies that have the effective place of management in Romania are subject to corporate income tax in Romania on their worldwide taxable income.

1.2 Tax treaties

Romania has double tax treaties (DTTs) that may allow a reduced taxation or exemption for nonresidents, subject to certain conditions being fulfilled (e.g., presentation of a valid tax residence certificate), with the following countries:

Albania, Algeria, Armenia, Australia, Austria, Azerbaijan, Bangladesh, Belarus, Belgium, Bosnia and Herzegovina, Bulgaria, Canada, China, Croatia, Cyprus, Czech Republic, Denmark, Ecuador, Egypt, Estonia, Ethiopia, Finland, France, Georgia, Germany, Greece, Hungary, Iceland, India, Indonesia, Iran, Ireland, Israel, Italy, Japan, Jordan, Kazakhstan, Korea (North), Korea (South), Kuwait, Latvia, Lebanon, Lithuania, Luxembourg, Macedonia, Malaysia, Malta, Mexico, Moldova, Montenegro, Morocco, Namibia, Netherlands, Nigeria, Norway, Pakistan, Philippines, Poland, Portugal, Qatar, Russian Federation, San Marino, Saudi Arabia, Serbia, Singapore, Slovakia, Slovenia, South Africa, Spain, Sri Lanka, Sudan, Sweden, Switzerland, Syria, Tajikistan, Thailand, Tunisia, Turkey, Turkmenistan, Ukraine, Uruguay, United Arab Emirates, United Kingdom, United States, Uzbekistan, Vietnam and Zambia.

Romania’s tax treaties are mainly based on the Organisation for Economic Co-operation and Development (OECD) model tax convention, although some old treaties are based on the United Nation’s model tax convention.

1.3 Freight tax

There are no freight taxes levied in Romania. Charges for pilotage, harbor dues, towage and other port charges vary according to the location.

1.4 Special tonnage tax

Any person owning a means of transport registered in Romania is liable to pay an annual local tax. It is paid in two equal installments by 31 March and 30 September.

In case of a water means of transport, the local tax is computed based on the power generated by the engine or capacity of the ship. The following lists the annual tax for some vessel types:

- Tugs – between €125 and €503, depending on the power generated
- Ships – €40 for each 1,000 dead weight tonnage (DWT)
- Barges – between €40 and €110, depending on loading capacity

1.5 Consumption tax (value-added tax)

The Romanian value-added tax (VAT) legislation is based on the European Union (EU) VAT Directive. As
a general rule, VAT is levied on goods and services supplied by taxable persons if the supplies result from economic activities and have a place of supply in Romania.

The Romanian standard VAT rate is 20% (19% with effect from 1 January 2017).

Certain VAT exemptions apply to specific operations related to sea vessels and to specific operations (including transport) that are directly related to export of goods.

1.6 Import and export duties
Import and export duties are based on the combined nomenclature classification of the imported or exported goods involved, in accordance with EU customs regulations.

2. Human capital

2.1 National labor law affecting seafarers
The Romanian Labor Code (Law 53/2003, republished and subsequently amended) and the following special labor regulations apply for seafarers:
- Government Ordinance no. 16/2000 on the ratification of some conventions adopted by the International Labor Organization
- Order No. 822/2007 on the organization of working time for offshore workers
- Order No. 896/2007 on the organization of working time for the crews and workers on fishing vessels

2.2 Tax on seafarer's income
Taxation on income obtained by seafarers is performed according to the provisions of the Romanian Fiscal Code corroborated with the relevant DTTs provisions.

2.3 Treaties relating to social security contributions
As Romania is an EU Member State, the provisions of the Council Regulation (EC) No.883/2004 of 29 April 2004 on the application of social security schemes to individuals moving within the community should be followed.

Romania has some bilateral treaties regarding social security contributions with other countries outside the EU.

3. Corporate structure

3.1 Most commonly used legal structures for shipping activities
Generally, shipping companies are registered as joint stock companies (SA) or limited liability companies (SRL). Such forms represent the most commonly used legal structures in Romania.

4. Grants and incentives

4.1 Specific and/or general subsidies available to shipping companies
There are no specific grants available to shipping companies in Romania.

Under the legislation, some general incentives/state aid schemes can also apply for shipping companies in Romania under certain conditions.

5. General information

5.1 Infrastructure
5.1.1 Major ports

Romania has several ports; most are small or medium-sized and are located on the Black Sea, the Danube-Black Sea Canal and the Danube River. The total length of navigable inland waterways is 1,779km. Major inland waterways are represented by the Danube (1,559km), the Danube-Black Sea Canal (64km) and the Poarta Alba-Midia Navodari Canal (33km).

Main ports:

- The Port of Constanta is the main Romanian port, as well as one of the biggest ports on the Black Sea. It is both a maritime and a river port. The port has a very favorable geographic position; it is situated on the routes of three pan-European transport corridors: Corridor IV, Corridor IX and Corridor VII (Danube), which links the North Sea to the Black Sea via the Rhine-Main-Danube Corridor. The Port of Constanta has a major role in the European intermodal transport network, favorably located at the crossroads of trade routes linking landlocked country markets in Central and Eastern with the Transcaucasus region, Central Asia and the Far East.
- Near the Port of Constanta, there are two satellite ports: Midia and Mangalia. These are part of the harbor complex under the coordination of the Romanian Maritime Ports Administration Constanta.
- Longtime inland ports, the Galati, Braila and Tulcea ports are located at the intersection of the maritime and fluvial Danube River, and they offer access to both the Black Sea and the North Sea, through the Rhine-Main-Danube Canal.
- Other ports include the Port of Sulina, Port of Medgidia, Port of Drobeta Turnu Severin and the Port of Orsova.

5.1.2 Port facilities

The Port of Constanta and its satellite ports operate the following terminals:

- Bulk liquid – mainly crude oil and petroleum products. The terminal can operate oil tanks with capacities of up to 165,000DWT, has specialized equipment for loading and unloading, and has access to pipelines. There is a specialized terminal for crude oil and gasoline imports and exports of refined petroleum products, petroleum derivatives and other liquid chemicals.
- Bulk solid – ores, coal, coke, grains, bulk cement and building materials, etc.
- Containers – the port has four container terminals, including the largest container terminal in the Black Sea (operated by Dubai Ports World). This terminal has a total area of over 76 hectares (52 hectares operational) and an annual capacity of 1.5 million TEUs operation. In addition to container shipping lines, container shipping services on the Danube River are also available, linking the ports of Constanta and Giurgiu with Belgrade, Serbia, and Budapest, Hungary.
- General goods – chemicals, food, timber, metal products, etc.
- Roll-on-roll-off (Ro-Ro) and ferry boat – two Ro-Ro terminals are located in the south, and there is a berth that can accommodate this type of operation in the north. The ferry boat terminal offers customers the facilities for the operation of specialized ships.
- Passengers – the terminal has an annual capacity of 100,000 passengers.
- River barges and tugs – a non-propelled barge terminal and a river tugs terminal.
- Liquefied petroleum gas (LPG) terminal – located in the Port of Midia, it is the largest marine terminal for LPG in the country. This terminal operates LPG traffic for the domestic market and for export to neighboring countries, such as Bulgaria, Serbia and Hungary.

5.1.3 Maritime education

The Romanian Maritime Training Center is the Romanian national body for the training and specialization of seafarers. The center operates on four premises, three in Constanta (at the Black Sea) and one in Galati (on the Danube River), and it serves the training needs of seagoing, river and port personnel, offering programs in compliance with Standards of Training, Certification and Watchkeeping (STCW) conventions and other national and international conventions. The training activity is coordinated by six specific departments: maritime navigation, river and inland water navigation, marine engineering, tanker specialization, rating...
professional training and practical training. For more information, go to www.ceronav.ro.

5.2 Safety and environmental issues

5.2.1 Implementation of the International Safety Management Code
Shipping companies are required to comply with the requirements of the International Safety Management (ISM) Code. The Romanian Naval Authority issues two documents for shipping companies that comply with the ISM Code: the document of compliance (DOC) and the safety management certificate (SMC). These documents are issued after the shipping companies pass an audit performed by the appropriate authority.

5.2.2 Special regulations on safety and the environment
Romania is part to the International Convention for the Prevention of Pollution from Ships, which is an important international regulation for preventing pollution to the marine environment by ships from operational or accidental causes, and the International Convention for the Safety of Life at Sea, which regulates the security of life at sea.

Romania has also entered into a number of regional conventions to achieve progress in the protection of the marine environment of the Black Sea, including the Convention on the Protection of the Black Sea Against Pollution.
1. Tax

1.1 Tax facilities for shipping companies
There are two tax regimes that may be applied by shipping companies in the Russian Federation (Russia):

- General taxation regime (applicable to all other companies operating in Russia)
- Shipping incentive regime (applicable to shipowners who have registered their vessels in the Russian International Register of Vessels (RIRV))

1.1.1 General taxation regime
Under the general taxation regime, shipping companies are subject to the full range of Russian taxes, including value-added tax (VAT), profits tax, social insurance contributions, assets tax, transport tax (with certain exemptions) and stamp duty.

Tonnage tax regime
No tonnage taxes are levied in Russia.

VAT
Generally, the provision of services in Russia, including chartering of vessels, is subject to Russian VAT. Where a supplier or a buyer of services is located in a foreign jurisdiction, Russian VAT may or may not be due depending on whether the “place of supply” of services is deemed to be Russia from a VAT perspective.

In case a foreign company without tax registration in Russia performs services that are subject to Russian VAT, a buyer of such services should act as a tax agent and calculate, withhold from the payment (remuneration) and remit to the Russian budget relevant VAT amounts (so-called VAT withholding mechanism). Thus, where a foreign company renders services to a Russian buyer, it becomes important from a cash flow and pricing perspective to determine the “place of supply” of such services for VAT purposes.

Place of supply rules
Under the current VAT legislation, the place of supply of carriage and transportation services and various related services is regulated by the following main principles:

- Carriage and transportation services, as well as services or works directly connected with carriage and transportation, are considered to be supplied in Russia and, consequently, should be subject to Russian VAT, if such services or work are rendered or performed either:
  - By a Russian company or a Russian individual entrepreneur and the point of departure and/or the point of destination of the shipment is located in Russia
  - By foreign entities not registered in Russia and both the points of departure and destination are located in Russia (apart from carriage of passengers and baggage executed by foreign entities other than through their permanent establishment)

- The place of supply is also considered to be in Russia if the means of transport are provided by a Russian company or a Russian individual entrepreneur under a charter contract (which provides for transportation on those means of transport), and the point of departure and/or the point of destination is located in the Russian territory.

- Services or work directly connected with carriage and transportation of goods placed under the international customs transit procedure upon transportation of foreign goods from a customs authority at the place of arrival to the Russian territory to a customs authority at the place of departure from the Russian territory are considered to be supplied in Russia if they are rendered or performed by companies or individual entrepreneurs who performed their business activity in Russia.

- The work or services that are directly connected with seagoing vessels and inland vessels that are located in the Russian territory should be deemed as performed or rendered in Russia. Such work or services shall include, in particular, installation, assembly, processing, treatment, repair and technical servicing.
Russia should be considered as the place of supply of carriage and transportation services, as well as services directly connected with them, performed by Russian and/or foreign companies, if the services are executed for the purpose of geological search, exploration and extraction of hydrocarbon materials on subsoil plots located on the continental shelf, and/or in an exclusive economic zone of Russia.

Russia is not supposed to be the place of supply when the means of transport are provided under a time-charter arrangement with a company or an individual entrepreneur for carrying out activities outside the territory of Russia with respect to capture of aquatic biological resources and/or research and development purposes or for the purposes of transportation between two ports outside Russia.

In other cases, the place of supply of the services should be determined under the default rule, i.e., as the place of a supplier’s activity.

**VAT exemptions**

Russian VAT law provides a VAT exemption (exemption without credit) for services that are rendered directly at Russian airports and in Russian airspace involving operation of an aircraft, including air navigation services.

Furthermore, the VAT legislation provides for VAT exemption for work (services, including repair services) with respect to operation of vessels, inland vessels and mixed (river-sea) vessels during the standing time in a port (all types of port charges, services of a harbor craft), as well as for maneuvering and for classification and inspection of vessels.

**VAT rates**

The VAT law provides for the following VAT rates applicable to carriage and transportation services and services (work) directly connected to carriage and transportation services:

The 0% VAT rate is available for VAT payers in the following operations:

- Services involving international carriage of goods. The “international carriage” of goods is deemed to be carriage of goods by inter alia seagoing, river-going and combined (river-sea) vessels where a departure point or a destination point of the goods is located outside of Russia
- Freight forwarding services rendered under a freight forwarding agreement in the frames of international carriage
- Work or services performed or rendered by Russian organizations in sea ports and river ports involving the transshipment and storage of goods that are moved across the border of Russia where shipping documents indicate a departure point and/or destination point located outside of Russia
- Work or services performed or rendered by inland water transport organizations in relation to goods that are to be exported under the export customs procedure involving carriage (transportation) of goods within the Russian territory from a departure point to a point of unloading or reloading (transshipment) onto seagoing vessels, combined (river-sea) vessels or other modes of transport
- Work or services directly connected with carriage or transportation of goods placed under the customs transit procedure
- Work or services involving the carriage of passengers and baggage provided that a point of departure or a destination is located outside the Russian territory (provided standard international documents of carriage are issued in respect of such carriage)
- Work or services performed by Russian rail carriers involving carriage or transportation of goods that are exported from Russian territory and withdrawals from Russian territory of products of processing performed in Russian territory
- Work or services performed or rendered by Russian rail carriers involving carriage or transportation of goods that are exported from Russian territory to the territory of a member state of the Customs Union and work or services directly connected with carriage or transportation of those goods the value of which is indicated in the documents of carriage for carriage of the goods
- Work or services performed or rendered by Russian rail carriers involving carriage or transportation of goods that are moved through Russian territory from the territory of a foreign state that is not a member
of the Customs Union, including via the territory of a member state of the Customs Union, or from the
territory of a member state of the Customs Union to the territory of another foreign state, including
one which is a member of the Customs Union, and work or services directly connected with carriage or
transportation of the goods, the value of which is indicated in carriage documents.

- Work or services associated with goods exported from Russian territory or of goods imported to Russia by
  sea vessels and mixed (river-sea) vessels under a time-charter arrangement.

The 0% VAT rate might be applied in the aforementioned cases provided that appropriate supporting
documents are collected by a taxpayer and submitted to the tax authorities; otherwise, the standard VAT rate
of 18% should apply until the required set of documents is collected. The application of the 0% rate normally
allows offsetting input VAT. The list of documents confirming such operations is established by Article 165 of
the Russian Tax Code.

The 18% VAT rate applies to other services or work with certain exemptions.

Practical issues
Even though the principles are stated by the Russian Tax Code, their application in practice always raises
many questions and uncertainties.

In 2014, the Plenum of the Supreme Arbitration Court (SAC) issued a ruling concerning issues arising for
arbitration courts in the process of examining VAT cases in practice aimed at ensuring uniform approaches to
the settlement of disputes associated with the application of VAT legislation (Ruling No. 33 of the Plenum of
the SAC “Concerning Issues Arising for Arbitration Courts in the Process of Examining Cases Associated with
the Levying of Value Added Tax” of 30 May 2014). Such ruling carries considerable weight in determining
the outcome of subsequent disputes concerning the application of tax law. Information letters and resolutions
of the Plenum of the SAC must be applied by all Russia’s arbitration courts.

The ruling states that a 0% VAT rate should be available for application to services related to the international
carriage of goods during individual stages of carriage. Per the SAC, in interpreting the provisions of VAT
legislation, the courts must bear in mind that the rendering of such services by more than one person
(multiple persons on the contractor’s side or the engagement of third-party subcontractors by the main
contractor) does not in and of itself prevent the 0% VAT rate from being applied by all persons involved in the
rendering of services.

Some federal arbitration courts have taken the view that services related to international carriage and
provided during the individual stages of carriage do not fall within the scope of services taxable at the 0% VAT
rate. Accordingly, these courts have concluded in the past that the 18% standard VAT rate should be charged
in such cases.

The approach of the SAC reflected in the ruling may lead to a new wave of disputes between taxpayers and
tax authorities in respect of the applicable VAT rate for services involving international carriage.

Profits tax
Generally, Russian profits tax could be imposed on both Russian and foreign companies operating in Russia.
Russian companies are taxed on their worldwide profits (in a general case, income received less deductible
expenses). The standard profits tax rate is 20% (including 2% payable to the federal budget and 18% payable
to the regional budget).

Generally, only economically justified and properly documented expenses can be deducted. Further, some
expenses are deducted within a limit set by the Russian Tax Code, and some expenses may appear to be
completely non-deductible.

A foreign company may be subject to Russian profits tax either via taxation of profits attributable to a Russian
permanent establishment of such a foreign legal entity, or via income tax withholding applied by Russian
taxpayers paying out so-called Russia-source income to that foreign company.

Permanent establishment
When a foreign company is resident in a jurisdiction having a double tax treaty (DTT) with Russia, the provisions of an appropriate treaty shall prevail, and the definition of a permanent establishment (PE) provided in a DTT should be tested instead of the domestic definition of a PE.

Should a PE of a foreign entity be constituted in Russia, it would be subject to the full range of applicable Russian taxes.

**Income tax withholding**

According to Russian domestic law, income from a specific list of transactions received by a foreign company and not connected with entrepreneurial activities of that company in Russia (i.e., do not constitute a Russian PE) should be subject to income tax withheld at the source. In particular, the following items could be taxed at source:

- Dividends received
- Interest income from any kinds of debt obligations
- Royalty income
- Capital gain from a sale of property-rich companies
- Rental income, including income from leases, income from rent of ships (vessels), aircraft and/or means of transport and containers used in international traffic
- Income from international traffic, including demurrages and other payments arising in connection with transportation

If the jurisdiction where a foreign organization is tax resident has a DTT with Russia, provisions of that treaty should prevail over provisions of Russian domestic law, and therefore, respective income either should be not subject to withholding tax in Russia at all or it should be taxed at a reduced tax rate in Russia.

Furthermore, income received by a foreign company from performance of work and rendering of services in the territory of Russia not leading to a PE in Russia shall not be taxable at the source.

**Transfer pricing**

The Russian transfer pricing rules primarily focus on related-party transactions, but certain third-party transactions are also subject to transfer pricing control including transactions involving goods traded on global commodity exchanges (such as oil and oil products, ferrous metals, non-ferrous metals, fertilizers, and precious metals and precious stones) and transactions with a counterparty located in so-called black-listed jurisdictions (tax heavens) if annual income earned in those transactions exceeds RUB 60 million (approximately US$0.8 million). All cross-border transactions with related parties are also subject to TP control.

In the domestic market, only related-party transactions could be subject to transfer pricing control. However, materiality thresholds apply in the domestic market, and generally only transactions in excess of RUB1 billion (approximately US$14 million) for 2014 and subsequent years.

As an exemption, certain domestic transactions will not be subject to TP control.

For the purposes of the transfer pricing law, the major condition for two entities to be regarded as related parties is a 25% ownership threshold, i.e., if one party directly or indirectly controls more than 25% of the other party. Courts may declare companies and/or individuals to be related if it is proven that relationships between the parties influenced the terms and the results of the transactions in question.

**Documentation requirements**

Notification of controlled transactions: Information about controlled transactions should be submitted annually to the tax authorities via a transfer pricing notification. This information should be presented to the tax authorities no later than 20 May of the year following the year when controlled transactions took place.

TP documentation: Transactions subject to transfer pricing control should be documented. The tax authorities may request TP documentation proving that the transfer prices are established at arm’s length. This documentation should be presented to the tax authorities within 30 business days from the date of the
tax authorities’ query which cannot be earlier than 1 June of the year following the reporting year. Generally, the Russian TP documentation should contain similar information as recommended by the OECD TP Guidelines. The TP documentation must be prepared and submitted to the tax authorities in Russian.

*Advance pricing agreements*

The TP Law provides for the possibility to conclude an advance pricing agreement (APA) with the Russian tax authority.

*Penalties*

The TP Law establishes a 40% penalty in case a taxpayer’s income is adjusted as the result of a transfer pricing audit (based on the amount of unpaid tax). However, no penalty can be charged by the tax authorities if the taxpayer submits transfer pricing documentation or concludes an APA.

The 40% penalty applies to transactions concluded in 2017 and subsequent years. A reduced 20% penalty applies to transactions concluded in 2014, 2015 and 2016.

*“Deoffshorization” initiatives*

On 24 November 2014, Federal Law No. 376-FZ was signed, which introduces conception of beneficial owner of income, Russian tax residence rules and controlled foreign companies (CFC) rules. It generally follows some recent OECD initiatives focused on preventing tax base erosion and profit shifting (BEPS) and general anti-avoidance rules (GAAR) re-enforcement.

Federal Law No. 376-FZ came into force from 1 January 2015 and applies to CFCs’ profits beginning with periods starting in 2015. The law also introduces certain filing requirements for the companies having CFCs and may have significant impact on shipping companies with Russian subsidiaries. We recommend examining this issue in more detail before setting up business in Russia or in case of having actual business units in Russia.

*Social insurance contributions*

The Russian social security system consists of contributions for pension, medical and social insurance. Social contributions are paid entirely by employers (without similar charge on employees) and should be calculated and paid to each non-budgetary fund separately no later than 15th of the following month.

Social contributions are to be accrued on remuneration provided to individuals in the context of employment relations and civil-legal agreements on performance of work or rendering of services (except for individual entrepreneurs), and copyright agreements. Generally, the tax base includes remuneration and most benefits provided to employees.

Please see below the table with social contribution rates, which are generally applicable as of 1 January 2016.

<table>
<thead>
<tr>
<th>Base</th>
<th>Pension fund</th>
<th>Social fund</th>
<th>Medical fund</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to RUB 718,000</td>
<td>22.0%</td>
<td>2.9%</td>
<td>5.1%</td>
<td>30.0%</td>
</tr>
<tr>
<td>From RUB 718,000 to RUB 796,000</td>
<td>22.0%</td>
<td>0.0%</td>
<td>5.1%</td>
<td>27.1%</td>
</tr>
<tr>
<td>Above RUB 796,000</td>
<td>10.0%</td>
<td>0.0%</td>
<td>5.1%</td>
<td>15.1%</td>
</tr>
</tbody>
</table>

The Russian social security system foresees additional pension contributions that should be paid by organizations that have employees eligible for early retirement (i.e., employees working in unsafe and hazardous conditions). Based on the results of a special procedure of evaluation of working conditions, certain job positions may be classified as work performed in unsafe and/or hazardous conditions. In this case, the employer shall accrue and pay additional pension contributions due from employment income of these special categories of employees. Depending on class of professional risk assigned to employees, the
employers are obliged to pay additional pension contributions at the rate ranging from 0% to 9%.

Taxation of certain categories of employees, including foreign nationals, has some specifics. For instance, earnings of foreign nationals who hold a highly qualified specialist (HQS) work permit in Russia are not subject to employer social contributions.

In addition to the aforementioned social contributions, all employers are required to pay to the Social Insurance Fund obligatory contributions against accidents at the workplaces and professional diseases. The rate may vary from 0.2% to 8.5% and depends on a company's economic activity.

**Personal income tax**

Russian personal income tax is either paid via withholding at source or based upon the submission of a Russian personal tax return.

Generally, companies are required to withhold personal income tax upon paying out income to employees. The tax rates depend on the type of the income and Russian tax residency status of the employees. Generally, Russian tax residents are taxed on worldwide income at 13% on ordinary income (including employment income), while Russian tax nonresidents are taxed on Russian-source income at 30% nonresident tax rate.

**Assets tax**

Both Russian and foreign companies (either having created a permanent establishment in Russia or not) could be subject to assets tax in Russia on their taxable assets.

For Russian companies, taxable assets include both movable and immovable property accounted as fixed assets on a taxpayer’s balance sheet (based on Russian accounting principles). The movable property that was put into use starting 1 January 2013 is excluded from the list of taxable assets for Russian assets tax purposes. The tax base is calculated as the average annual net book value of taxable assets under Russian accounting standards. The maximum assets tax rate provided by the Russian Tax Code is 2.2% (which could be reduced by the local tax authorities).

For foreign companies, when the Russian PE of a foreign company is created, the calculation of the assets tax is similar to the procedure discussed previously for Russian taxpayers, i.e., 2.2% (this could be reduced by the local tax authorities) of the movable and immovable assets’ net book value calculated based on Russian accounting principles.

If no PE is created, the assets tax is calculated as 2.2% (could be reduced by the local tax authorities) of the assets’ inventory value with respect to immovable property only (calculated based on the data of the technical inventory bodies). Such value only becomes known after the valuation of the immovable property is performed by the technical inventory bodies. Generally, inventory value is much lower than market value. It is notable that in accordance with civil law, vessels should normally be considered as immovable property.

**Transport tax**

Vehicles (including vessels) registered in accordance with Russian law (see the details of the registration below) are subject to transport tax, which for seagoing vessels is calculated based on either number of unit of means of transport or horsepower (HP).

The following transportation vehicles are exempt from transportation tax:

- Seagoing harvesting vessels
- Passenger and freight sea vessels that are owned by companies and private entrepreneurs whose main type of activity is performance of passenger and/or freight carriage

For further exemptions with respect to the vessels registered in the RIVR, refer to section 1.1.2 below.

**State duties**

The following major state duties are applicable to shipping companies in Russia:
1.1.2 Shipping incentive regime

**VAT benefits for vessels registered in the Russian International Register of Vessels**

Shipowners who have registered their vessels in the RIRV could enjoy the following benefits:

- The importation of vessels that are to be registered in RIRV is customs VAT-exempt.
- The sale of built vessels that are to be registered in RIRV is subject to 0% VAT (provided a required set of documents is collected and submitted to the Russian tax authorities).

When the registration of a vessel in the RIRV has not been performed within 45 calendar days from the date of transfer of ownership for the vessel from a taxpayer to a customer, the tax base is determined by a tax agent (if the vessel is deemed to be supplied in Russia, please refer to the VAT place of supply rules above) as the value at which the vessel was sold to the customer including the amount of tax. If this is the case, the tax agent is a person who owns the ship at the end of 45 calendar days from the date of the transfer of ownership. The tax agent should assess VAT at 18/118 rate.

Though the shipping incentive regime does not provide for any additional VAT exemptions for carriage and transportation services, such services could be outside the scope of Russian VAT or be subject to the 0% rate or be subject to the standard 18% rate under the general rules (see section 1.1.1. above).

**Profits tax**

Profits received from transportation of cargo and passengers, other related shipping services, and disposal of vessels are exempt from taxation in Russia provided the ships are registered in the RIRV and their point of departure and/or point of destination is located outside Russia. However, provisions of the Russian Tax Code disallow tax deduction of costs with respect to technical maintenance, repairs and other services related to maintenance or disposal of vessels registered in the RIRV. Moreover, such vessels are not depreciated for tax purposes.

All other nonshipping income received by a company (interest income, dividends, capital gains, including disposal of ships registered in the RIRV, etc.) is taxed under regular rates and rules.

**Social insurance contributions**

The crew of the vessels registered in RIRV should not be subject to social contributions (except additional payments to the pension fund related to hazardous nature of work and payments for contributions against accidents at the workplaces and professional diseases). This provision came into force beginning in 2012 and is valid until 2027.

**Assets tax**

Vessels registered in the Russian International Register of Vessels shall not be deemed to be subject to assets tax.

**Transport tax**

Companies are exempt from transport tax with respect to vessels registered in the RIRV.

<table>
<thead>
<tr>
<th>Type of duty</th>
<th>Duties RUB</th>
</tr>
</thead>
<tbody>
<tr>
<td>State registration in the State Register of Vessels, a vessel register or a bareboat charter register of marine vessels</td>
<td>6,000</td>
</tr>
<tr>
<td>State registration of amendments made to the State Register of Vessels, a vessel register or a bareboat charter register in relation to marine vessels</td>
<td>1,200</td>
</tr>
<tr>
<td>Issuance of a certificate of ownership and for the state registration of limitations (encumbrances) of rights in a marine vessel</td>
<td>6,000</td>
</tr>
<tr>
<td>Issuance of a certificate of the right to fly the Russian flag</td>
<td>6,000</td>
</tr>
</tbody>
</table>
**Customs duties**

Vessels which are to be registered in the RIRV are exempt from import customs duties and VAT.

**State duties**

State duties for registration of vessels in the RIRV depend on the gross tonnage of the ship:

<table>
<thead>
<tr>
<th>Gross tonnage units</th>
<th>Duties per vessel RUB</th>
</tr>
</thead>
<tbody>
<tr>
<td>80-3,000</td>
<td>52,000 plus 9.4 per unit*</td>
</tr>
<tr>
<td>3,001-8,000</td>
<td>54,000 plus 8.8 per unit</td>
</tr>
<tr>
<td>8,001-20,000</td>
<td>96,000 plus 5.0 per unit</td>
</tr>
<tr>
<td>Over 20,000</td>
<td>134,000 plus 3.2 per unit</td>
</tr>
</tbody>
</table>

* Gross register ton (GRT)

The following duties apply for annual confirmation of a ship's registration in the RIRV:

<table>
<thead>
<tr>
<th>Gross tonnage units</th>
<th>Duties per vessel RUB</th>
</tr>
</thead>
<tbody>
<tr>
<td>80-8,000</td>
<td>14,000 plus 22.4 per unit*</td>
</tr>
<tr>
<td>8,001-20,000</td>
<td>104,000 plus 14.2 per unit</td>
</tr>
<tr>
<td>20,001-45,000</td>
<td>204,000 plus 9.2 per unit</td>
</tr>
<tr>
<td>Over 45,000</td>
<td>260,000 plus 8.0 per unit</td>
</tr>
</tbody>
</table>

* Gross register ton (GRT)

Considering the above, for shipowners involved in international traffic where the point of departure and/or the point of destination are located outside of Russia, the only Russian taxes applicable would be state duties provided the vessels are registered in the RIRV.

1.2 **Tax facilities for seafarers**

A personal income tax rate of 13% is established for the foreign seafarers who are not tax residents of Russia but who work on vessels that are flying the Russian flag.

1.3 **Tax treaties and country of residence**

Russia has ratified tax treaties with more than 80 countries.

The tax law envisages criteria of residency based on the (effective) place of management test as a residency criterion.

Most treaties have a special article for international shipping income that is generally consistent with Article 8 of the OECD Model Tax Convention. Generally, the DTTs ratified by Russia provide that profits from the operations of vessels in international traffic should be taxed only in the country of residence of the shipping company.

Further, such DTTs usually exempt vessels owned by foreign companies without PE in Russia from Russian assets tax since vessels are not treated as immovable property for the purpose of the DTTs. However, recent changes in international and Russian law may expand practical interpretation of some basic concepts like tax residency, beneficial ownership etc. and restrict application of DTT benefits in certain cases.

2. **Corporate structure**

2.1 **Most commonly used legal forms for shipping activities**

Starting from 1 September 2014 the following forms of legal entity incorporation are regarded as the basic
forms of conducting the business:
- Limited liability company (LLC)
- Non-public joint-stock company (NPJSC)
- Public joint-stock company (PJSC)

A joint-stock company is deemed public (or the rules for public joint-stock companies will be applied for such companies) if any of the criteria below are applicable:
- The company's name and charter contain the indication of public status.
- The company performs a public offering of its shares or bonds.
- The company's shares or bonds are subject to public trading.

A joint-stock company is deemed non-public if none of the abovementioned criteria are applicable.

Prior to September 2014 the most commonly used legal forms in Russia were the limited liability company (LLC, usually referred to as OOO) and open joint stock company (PJSC, usually referred to as PAO). While the majority of shipping companies work as OOOs, most of the biggest companies use the PAO form.

### 2.2 Taxation of profit distribution

Dividends received by Russian taxpayers from Russian or foreign subsidiaries are generally subject to the 13% profits tax (before 2015, the rate was 9%).

A participation exemption regime was introduced for dividends with effect from 1 January 2008, but it is subject to strict conditions, e.g., minimum ownership of 50%, minimum holding period of 12 months and registration of a subsidiary in a jurisdiction not included in the blacklist of offshore jurisdictions. While there are still some discussions around what “registration” means (e.g., either legal domicile or a place of management and control), there is still some uncertainty in this respect. The changes proposed to the tax law are aimed at clarifying those matters, among others; however, no new law has been introduced or finally approved in this respect.

Dividends received by foreign organizations from Russian subsidiaries are subject to a 15% withholding tax, which under certain conditions may be reduced pursuant to applicable DTTs.

### 3. Grants and incentives

#### 3.1 Specific and/or general subsidies available to shipping companies

Some subsidies are available for shipping companies in Russia, in particular, for shipping companies carrying out navigation and hydrographic support activities for the purpose of navigation safety on the Northern sea line.

#### 3.2 Customs implications

Vessels that are to be registered in the RIRV are exempt from import customs duties and VAT:
- Vessels that are not to be registered in the RIRV and imported into Russia under the temporary importation customs procedure; customs duties and import VAT exemptions are available: vessels of tonnage exceeding 1,000 GRT (customs classification codes 8901 10 100, 8901 20 100 0, 8901 30 100 0, 8901 90 100 0) owned by a foreign legal entity (FLE) and chartered to a Russian legal entity (RLE) under a bareboat and time charter arrangement for usage in international carriage only (for period of their temporarily importation)
- Vessels used as bunkers (customs classification code 8901) for export of petroleum products owned by an FLE and chartered to an RLE upon condition of usage in ports opened for the foreign vessels call
- Sea ferries (customs classification code 8901 10 100) owned by an FLE and chartered to an RLE under bareboat charter and time-charter agreements used in domestic and international carriage on certain routes
Other vessels can be temporarily imported into Russia with partial exemption from customs duties and import VAT. The amount to be paid for each full and incomplete calendar month during which the vessel stays in the Russia is 3% of the amount of import customs payments that would have to be made if the vessel had been placed under the customs procedure of release for domestic consumption.

The vessels which are not to be registered in the RIRV and placed under the customs procedure of release for domestic consumption are subject to customs duties and import VAT.

The Federal Law Concerning Customs Regulation envisages that if a vessel transports Russian goods from Russian territory to artificial islands, installations and structures over which Russia exercises jurisdiction (e.g., in the Russian continental shelf), such goods are not subject to customs declaring, customs duties or import VAT.

Russia became a member of the World Trade Organization (WTO) in August 2012, and the respective WTO regulations are applied in Russia.

4. General information

4.1 Infrastructure

4.1.1 Major ports
Shipping infrastructure in Russia includes over 50 ports. The major ports are:
- Arkhangelsk
- Azov
- Kaliningrad
- Kavkaz
- Magadan
- Murmansk
- Nakhodka
- Novorossiysk
- Primorsk
- Rostov-on-Don
- St. Petersburg
- Taman
- Tuapse
- Vanino
- Ust'-Luga
- Vladivostok
- Vostochny
- Vysotsk
- Yeisk.

4.1.2 Port facilities
The following support facilities are usually available in major ports in Russia:
- Maintenance and repair
- Docking
- Storage
- Cranes for every size of vessel.

4.1.3 Support services for the shipping industry
The following support services for the shipping industry are available:
• Consulting firms specialized in shipping
• Maritime law services
• Insurance brokers
• Pilots
• Crewing services
• Ship agents

4.1.4 Regulatory bodies in shipping industry
The following state bodies are authorized for regulation and control of the shipping industry:
• Ministry of Transportation of Russia (Mintrans) – adopting different types of regulations (on sea pilots, marine registration, rules for safety freight shipment, etc.)
• Federal Service of Transportation Supervision (Rostransnadzor) – carrying out control of maritime safety
• Federal Agency of Maritime and River Transport (Rosmorrechflot) – exercising functions for state services and state property administration in the sphere of maritime and river transport area
• Federal Fishing Agency (Rosrybolovstvo) – regulating fishing industry
• Federal Service for Ecological, Technological and Atomic Supervision (Rostekhnadzor) – licensing of activities related to maritime safety
• Federal Agency of Water Recourses (Rosvodresursy) – exercising functions for state services and state property administration in the sphere of water recourses
• Other services authorized for shipping industry regulation and control among other functions (Federal Tax Service, Federal Customs Service, Federal Tariffs Service, etc.)

4.1.5 Maritime education
The major maritime educational institutions are:
• Ushakov Baltic Navy Institute (Kaliningrad)
• Far Eastern State Maritime Academy (Vladivostok)
• Kamchatka State Maritime Academy (Petropavlovsk-Kamchatski)
• Admiral Ushakov Maritime State Academy (Novorossiysk)
• Admiral Nevelski Maritime State University (Vladivostok)
• Moscow State Academy of Water Transport (Moscow)
• Novosibirsk State Academy of Water Transport (Novosibirsk)
• Sedov Rostov-on-Don Maritime College (Rostov-on-Don)
• St. Petersburg State University of Water Communications (St. Petersburg)
• Sakhalin Marine College (Nevelsk)
• Admiral Makarov State Maritime Academy (St. Petersburg)
• Volzhskaya State Academy of Water Transport (Nizhniy Novgorod)
The universities and colleges provide specialized courses in maritime science, technology and engineering, and oceanography.

4.2 Safety and environment protection issues
4.2.1 Implementation of the International Safety Management Code
Most shipping companies in Russia have implemented the International Safety Management (ISM) Code, as it would be impossible to sail ships in international territories without doing so.

Issues of maritime safety have always been given high priority in Russia. In particular, in 2000, a regulation of the Russian government (No. 324 of 11 April 2000) was adopted that approved a statute for a federal system of maritime industry protection from unlawful acts against security of navigation. According to this regulation, the main task of the federal system is to strengthen the security of vessels, their crews and passengers, the cargos transported, navigation control units, means of communication and navigation, and
port facilities and their personnel.
The security system comprises a set of legislative, organizational, administrative, operational, military and technical arrangements aimed at foreseeing, detecting and deterring unlawful acts threatening human lives and damage to property and detecting and handling problems and conditions that could foster unlawful acts in the sphere of the shipping business.

According to the regulation, the implementation of the assigned tasks of management and coordination of protective measures to be taken was entrusted to Mintrans and its departments. This work is carried out in close cooperation with other federal executive authorities.

4.2.2 International regulations on safety and environment protection
The Maritime Security Service (MSS), a federal state institution, is the executive body appointed to organize and oversee the implementation of the requirements of the International Convention for the Safety of Life at Sea (SOLAS) chapter XI-2 and the International Ship and Port Facility Security (ISPS) code in Russia. Also in force is the International Convention for the Prevention of Pollution from Ships, 1973, as modified by the Protocol of 1978 relating thereto (MARPOL 73/78) and the United Nations Convention on the Law of the Sea (UNCLOS), 11 April 1997.

4.2.3 Russian regulations on safety and environment protection
Specific types of activity in the field of industrial safety – operation, major overhaul of a hazardous production facility (e.g., combustible liquids, gases or other combustible substances), servicing and repair of technical equipment used in a hazardous production facility – are subject to licensing in Russia. A company operating a hazardous facility must comply with certain requirements:

- The company must obtain a license to operate a fire explosive facility. Licenses are granted by Rostekhnadzor.
- The company must pass an industrial facility safety review. Such review must be carried out by an expert with an appropriate license, and the expert’s report shall be approved by Rostekhnadzor.
- The company must produce a declaration of industrial safety.
- The company must procure an insurance policy covering liability for the harm caused to life, health, property or environment by accidents at the hazardous facility.
- The company must register as a facility in the state register of hazardous facilities.
- The company must comply with other requirements set out in the law.

Companies also need to obtain special water permits for the use of water objects under Russian state (federal) ownership for performing different types of activities, including for:

- Creation of stationary and/or floating platforms, artificial islands, and artificial land plots on the lands, covered by surface waters
- Construction of hydro-technical installations, bridges (as well as of submerged and underground passages), pipelines, underwater communication lines and other linear objects, if such construction is connected with changing the bottom and the banks of water objects
- Mineral prospecting and mining

Underwater cable laying or offshore subsea pipeline installations shall be effected only upon obtaining permission issued by the Federal Service for Supervision in the Area of Natural Resources’ Use (Rosprirodnadzor).

4.2.4 Safety rules for crew members
Crew members must hold the necessary license to work on a ship. The license is only valid for a few years and must then be renewed. In general, the safety rules are robust and strict.

4.3 Sailing the Russian waters and crossing the Russian border
Any state enjoys freedom of navigation in the Russian exclusive economic zone and/or the waters above the continental shelf.
As regards the Russian territorial sea, its external border is considered to be the state border of Russia. Hence, the entry into the territorial sea represents an entry into the territory of Russia. According to general regulation of Russian law, only innocent passage of a vessel does not require any permission, implying that all other activities do require such permission. On the other hand, no specific procedure for granting right of sailing in the internal seaways and territorial sea of Russia to commercial vessels under the foreign flag has been elaborated.

The Russian government has developed the practice of granting foreign vessels permission for single and multiple entries into the internal waters and territorial sea of Russia for the purposes of laying pipelines, monitoring conditions of existing pipelines and other related activities. Such permission defines the area of the territorial sea where entrance is allowed, names and flagship states of the foreign vessels admitted and the type of works they are to perform, and the admission period. Please note that it is common practice for vessels flying the Russian flag to receive such permissions for multiple crossings of the border as well.

To formally cross the border, a foreign vessel has to enter a relevant Russian seaport (some Russian ports are closed for foreign vessels) and undergo relevant state border and customs control. Further, carrying out activities in the Russian territorial sea has to be reported to border control officials, and certain information must be provided.

If a vessel needs to pass through Russian inland waterways, it must be registered in the bareboat-charter register (as described below), because under Russian law, vessels are allowed to navigate in the inland waterways of Russia only under the Russian flag, excluding situations when special single-use permit is granted by the Russian government.

### 4.4 Flagging issues

The right to fly the Russian flag permanently is normally granted only to vessels owned by Russian legal entities.

Ships flying a foreign flag cannot provide services inside the Russian territorial sea.

The right to fly the Russian flag may be temporarily granted to a ship owned by a foreign company if the ship is provided under a bareboat charter to a Russian company for a period of at least one year, assuming the following conditions are met:

- The shipowner has agreed in writing to transfer the vessel under the Russian flag.
- Mortgagees under the mortgages established and registered in accordance with the laws of the shipowner’s state have agreed in writing to transfer the vessel under the Russian flag.
- The laws of the country under which flag the owner operates the ship do not prohibit granting the vessel the right to fly a foreign flag.
- The right to fly a foreign flag will be suspended by the time the right to fly the Russian flag is granted. Such a right may be granted for a maximum period of two years, with a possibility of extension up to the period of the bareboat charter. Foreign vessels with the Russian flag can render all kinds of services in Russian territorial waters.

### 4.5 Registration

#### 4.5.1 Registration requirements

Any vessel flying the Russian flag must be registered in one of the following register books of Russia:

- The Russian State Vessels Register
- The Register of Vessels under Construction
- The Bareboat Charter Register
- The Russian International Register of Vessels

The right of ownership and other property rights to a ship, as well as limitations (encumbrances) on it (e.g., mortgage, trust management), shall be subject to registration in the state register or the ship’s book.

Vessel registration in Russia is carried out at various merchant ports at the choice of the shipowner or
The registration of vessels and issuance of respective documents is processed by the master of a port.

4.5.2 Ship registration procedure
The procedure of ships’ registration is covered by several decrees and orders issued by the Russian government and Mintrans.

A vessel may be registered for a certain period of time with the right of prolonging this period or without establishing duration of a vessel’s registration. A vessel’s registration in the registry shall be subject to annual confirmation. A procedure for the annual confirmation of a vessel’s registration shall be established by the rules for registration of ships and rights thereto in commercial seaports.

4.5.3 Requirements for officers and crew serving on vessels
The crew of a ship consists of the shipmaster, other commanding officers and the rest of the crew. In addition to the shipmaster, the commanding officers of a ship include the mates, mechanics, electric mechanics, radio officers and physicians. Mintrans, Rosrybolovstvo and other federal executive bodies may also assign other specialists to the ship.

Russian law does not contain any specific requirements regarding the nationality (citizenship) of crew of foreign vessels. However, if a foreign vessel obtains permission to fly the Russian flag, certain nationality requirements will be applicable: the captain, the chief officer, the chief mechanic and the radio officer will have to be Russian citizens.

Each ship shall have on board a crew whose members have the proper qualifications to ensure:

- The safe sailing of the ship and the protection of the marine environment
- The fulfillment of the requirements for the observance of working time aboard the ship
- Prevention of overwork of the crew members

4.5.4 International conventions regarding registration

4.5.5 Special requirements or rules relating to registration
The Regulations for Ship Registration in Sea Trading Ports establish an uncomplicated procedure for Russian ship operators to register ships in the Russian International Register of Vessels, including the re-registration of ships listed in the Russian State Register of Ships or Russian Bareboat Charter Register. Specifically, the re-registration of foreign ships chartered by a Russian disponent under bareboat charter from the Russian Bareboat Charter Register to the Russian International Register of Vessels requires neither execution of a new bareboat charter nor a new permit for flying the Russian flag.
Singapore

1. Tax

1.1 Tax in general

In the absence of specific tax incentives, the standard rate of corporate income tax is currently 17%. Seventy-five percent of the first S$10,000 of chargeable income and 50% of the next S$290,000 are exempt from tax. The balance of chargeable income in excess of S$300,000 is fully taxable at the standard rate of 17%.

1.2 Tax facilities for shipping companies

1.2.1 Automatic exemption

A shipping enterprise is exempt from tax on qualifying shipping income, which includes, but is not limited to:

- Income derived from the operation of Singapore ships plying outside the limits of the Port of Singapore
- Income from carriage of passengers, mail, livestock or goods shipped in Singapore by foreign ships (excluding carriage arising solely from transshipment from Singapore or carriage that is only within the limits of the port of Singapore)
- Income derived from foreign exchange and risk management activities that are carried out in connection with and incidental to the core shipping operations of Singapore ships
- Income derived from the provision of qualifying in-house ship management services\(^1\) in respect of Singapore ships owned or operated by any qualifying company
- Gains derived from the sale of Singapore ships and ships under construction (including new building contracts)\(^2\) and sale of all the issued ordinary shares in a qualifying special purpose company that is the owner of Singapore ships only or is the buyer under a contract for construction of a ship that is provisionally registered or intended to be registered as a Singapore ship

Only companies (resident and nonresident) owning or operating ships are eligible for these exemptions. These exemptions are granted automatically if the criteria are met. In addition, such companies will enjoy automatic withholding tax exemption on certain payments made in respect of qualifying loans entered into on or before 31 May 2021 with foreign lenders to finance the purchase or construction of qualifying assets e.g. Singapore ships, subject to conditions.

A “shipping enterprise” refers to any company owning or operating Singapore ships or foreign ships. A “Singapore ship” is one that has been issued with a permanent certificate of registry under the Merchant Shipping Act (Cap 179) i.e., it flies the Singapore flag), and its registry is not closed or deemed to be closed or suspended. The exemptions will apply from the date of provisional registration if the permanent certificate of registry has subsequently been obtained in respect of the ship.

1.2.2 Maritime Sector Incentive – Approved International Shipping Enterprise award

Shipping companies that own or operate a fleet of foreign ships can apply for the Maritime Sector Incentive – Approved International Shipping Enterprise (MSI-AIS) award. Successful applicants would either be granted the MSI-AIS status or the MSI-AIS (Entry Player) status, depending on their scale of operations.

Under this scheme, the MSI-AIS company is exempt from tax on qualifying shipping income, which includes, but is not limited to:

- Income derived from the operation of foreign ships plying in international waters
- Income from carriage of passengers, mail, livestock or goods shipped in Singapore by foreign ships (excluding carriage that is only within the limits of the port of Singapore)
- Income derived from foreign exchange and risk management activities that are carried out in connection

\(^1\)“Qualifying in-house ship management services” excludes that of corporate services (e.g. administrative and accounting services).

\(^2\) Provided that the shipping enterprise can substantiate that it intended to register its ship with the Singapore Registry of Ships.
with and incidental to the operation of ships
• Income derived from the provision of qualifying in-house ship management services1 in respect to foreign ships owned or operated by any qualifying special purpose vehicle
• Dividend income or share of profits received from an approved network company that is an overseas affiliate that is at least 25% related to the MSI-AIS company and paid out of qualifying shipping profits
• Gains derived from the sale of foreign ships, ships under construction (including new building contracts) and sale of all of the issued ordinary shares in a qualifying special-purpose company that is the owner of any ships or is the buyer under a contract for the construction of any ships

Other benefits include automatic withholding tax exemption on qualifying payments made in respect of qualifying loans entered into on or before 31 May 2021 with foreign lenders to finance the purchase or construction of qualifying assets, e.g., foreign ships, subject to conditions.

The MSI-AIS award may be granted for a renewable period of 10 years (up to a maximum of 40 years), and the MSI-AIS (Entry Player) status may be granted for a nonrenewable period of 5 years, with the option of graduating to the MSI-AIS status if qualifying conditions are met. The application window for the MSI-AIS (Entry Player) award was previously from 1 June 2011 until 31 May 2016. This window has been extended to 31 May 2021 in the 2015 Budget.

1.2.3 Maritime Sector Incentive — Maritime Leasing award

The Maritime Sector Incentive — Maritime Leasing (MSI-ML) award aims at promoting ship and sea container financing operations in Singapore. It is designed to encourage entities to use Singapore as their capital and funding base to finance their vessels and sea containers. Qualifying entities include companies, funds, business trusts and partnerships incorporated or registered in Singapore.

Under the MSI-ML (Ship) award, approved shipping investment enterprises may enjoy tax exemption on their qualifying income, which includes:
• Income derived from the chartering or finance leasing of seagoing ships to specified persons for use outside the port limits of Singapore
• Income derived from foreign exchange and risk management activities that are carried out in connection with and incidental to the qualifying ship leasing activities
• Gains derived from the sale of seagoing ships, seagoing ships under construction (including new building contracts) and sale of all of the issued ordinary shares in a qualifying special-purpose company that is the owner of any seagoing ship or is the buyer under a contract for the construction of any seagoing ship
• Dividend income or share of profits from approved foreign ship-owning entities that are distributed out of qualifying ship leasing activities

Under the MSI-ML (Container) award, approved container investment enterprises may receive a concessionary tax rate of 5% or 10% on their qualifying income, which includes:
• Income derived from the operating or finance leasing of sea containers that are used for the international transportation of goods
• Income derived from the leasing of intermodal equipment that is incidental to the leasing of qualifying containers
• Income derived from foreign exchange and risk management activities that are carried out in connection with and incidental to the qualifying container leasing activities
• Dividend income or share of profits from approved foreign container asset-owning entities that are distributed out of qualifying container leasing activities

Approved investment managers of approved shipping or container investment enterprises under the above schemes may also receive a 10% concessionary tax rate on their qualifying management income.

The application window for the MSI-ML award was previously from 1 June 2011 until 31 May 2016, and successful applicants will be granted the status for a period of five years. This window has been extended to 31 May 2021 in the 2015 Budget.
1.2.4 Maritime Sector Incentive – Supporting Shipping Services award

The Maritime Sector Incentive – Supporting Shipping Services (MSI-SSS) award aims to promote the growth of ancillary shipping service providers and to encourage shipping conglomerates to set up their corporate services functions in Singapore. An approved MSI-SSS company will enjoy a 10% concessionary tax rate on incremental income derived from the provision of approved shipping-related support services such as ship broking, forward freight agreement trading, ship management, ship agency, freight forwarding, logistics services and qualifying corporate services.

The application window was previously from 1 June 2011 until 31 May 2016, and successful applicants will be granted the MSI-SSS award for a period of five years. This window has been extended to 31 May 2021 in the 2015 Budget and subject to meeting qualifying conditions and higher economic commitments, the award may be renewed for another five years.

1.2.5 Freight uplift income from Singapore

Shipowners and charterers are exempt from tax on their uplift of freight from Singapore. This exemption applies to nonresident shipowners and charterers, resident shipping companies, and companies granted the MSI-AIS award. It does not, however, cover income from the carriage within the limits of the Port of Singapore.

1.2.6 Withholding tax

Singapore imposes withholding tax on certain payments to nonresident persons, including interest and rental or other payment for the use of movable property if the payment is borne directly or indirectly by a person residing or having a permanent establishment in Singapore.

Prior to 17 February 2012, time, voyage and bareboat charter payments to nonresident persons of Singapore for the use of ships were subject to withholding tax at rates ranging from 0% to 2% of the gross fee payable. Only companies enjoying the MSI-AIS status are not required to account for withholding tax on such payments.

Since 17 February 2012, withholding tax exemption has been granted on payments for time, voyage and bareboat charters of ships made to nonresidents, excluding permanent establishments in Singapore. There is also no requirement to withhold tax on charter payments made to a permanent establishment in Singapore. The permanent establishment has to declare the charter fees received in its annual income tax return and will continue to be assessed to tax on such fees.

1.2.7 Goods and services tax

With regard to the shipping industry, supplies that qualify for zero-rating relief (i.e., goods and services tax (GST) at 0%) include:

- Services (not being ancillary transport activities such as loading, unloading and handling) comprising the transport of passengers or goods:
  - From a place outside Singapore to another place outside Singapore
  - From a place in Singapore or to a place in Singapore and substantially outside Singapore
- Services (including ancillary transport activities such as loading, unloading and handling) comprising the transportation of goods within Singapore to the extent that these services are supplied by the same supplier as part of the supply of services as defined above
- Services supplied within any free trade zone or designated area of a port or terminal for the handling of ships or the handling or storage of goods carried in a ship
- Pilotage, salvage or towage services performed in relation to ships
- Services comprising surveying of any ship or the classification of any ship for the purposes of any register
- The supply, including the letting on hire, of any ship
- The repair and maintenance of any ship under prescribed scenarios
- The making of arrangements for the supply (including the letting on hire) of, or of any space in, any ship
• Management services, in relation to any ship, provided to the owner, operator or agent of the ship
• The supply, including the letting on hire, of any sea container, which is used or to be used for the international transportation of goods, under prescribed requirements
• Repair, maintenance or management of sea container, which is used or to be used for the international transportation of goods, under prescribed scenarios and requirements
• Subject to prescribed conditions, the supply of goods or letting on hire of goods that are:
  - For use as stores or fuel on a ship
  - For installation on a ship or a ship under construction
  - For use in the maintenance or operation of a ship
  - For sale by retail as merchandise to persons carried on a ship
Please also note that there is a specific definition of “ship” in the GST act.

With effect from 1 October 2011, the Approved Marine Customer Scheme (AMCS) was introduced to further ease compliance for businesses procuring goods for use or installation on internationally bound commercial ships. Under the scheme, approved businesses in the shipping and marine industries are eligible to purchase or rent goods at 0% GST. The documentary requirements imposed on suppliers making these zero-rated supplies to these approved businesses have been simplified as well.

The standard rate for GST is currently 7%.

1.3 Taxation of seafarers
The employment income of crew working on Singapore-registered ships is specifically exempt from tax where the employment is substantially outside Singapore.

For a seafarer who is employed on board a foreign ship, if the ship operates exclusively in foreign ports, the crew member’s remuneration will not be subject to Singapore income tax. However, if the foreign ship is plying between Singapore and foreign ports, in practice, the Inland Revenue Authority of Singapore (IRAS) will take into account the residency of the company that employs the seafarer in determining the taxability of the seafarer’s employment income. If the company is incorporated or resident in Singapore, the employment income may be deemed to be Singapore-sourced income, and the seafarer may be liable to Singapore tax on his or her full remuneration. Correspondingly, if the company is incorporated or resident outside of Singapore, the employment income relating to days spent in Singapore waters may be subject to tax in Singapore, subject to the 60-day de minimis rule and any applicable treaty relief. There are no clear guidelines on the taxation of seafarers working on foreign ships, and the IRAS may not necessarily agree with the above views.

Most of the double taxation agreements that Singapore has concluded also provide for special treatment of crew members who are nationals of the other treaty countries.

1.4 Tax treaties and place of effective management
Singapore has concluded more than 80 comprehensive double taxation agreements. Each of these agreements contains an article on shipping. Under some of these agreements, a nonresident of Singapore may enjoy full exemption on income derived from qualifying shipping activities. Singapore has also entered into limited treaties relating to income arising from the operation of ships in international traffic with the following jurisdictions:
• Brazil (covers also income from air transport)
• Chile
• Hong Kong (covers also income from air transport)
• United States of America (covers also income from air transport)

Generally, the shipping article of a tax treaty ensures that profits arising from international traffic will be taxed in the jurisdiction where the enterprise operating the ships is resident.

The tax residency of a Singapore company is determined by the location where the control and management
of the business are exercised. This is generally the place where the board of directors normally holds its meetings, unless it is clearly stated that the control and management are exercised in some other manner.

1.5 **Freight taxes**
There are no freight taxes in Singapore. However, an annual tonnage tax is payable for Singapore ships. Refer to section 5.3.2 below.

2. **Human capital**

2.1 **Formalities and regulations for hiring personnel**
The domestic legislation governing the recruitment of seamen is contained within the Maritime and Port Authority of Singapore (Registration and Employment of Seamen) Regulations.

2.2 **Collective labor agreements**
Singapore is recognized as a non-flag of convenience (FOC) registry by the United Nations Conference on Trade and Development (UNCTAD) and the International Transport Workers' Federation (ITF). The collective agreements signed with the Singapore Organization of Seamen (SOS) and the Singapore Maritime Officers' Union are recognized by the ITF. However, owners of Singapore-registered ships are free to establish collective agreements with the unions.

2.3 **Treaties relating to social security contributions**
Singapore has no treaties with other countries governing social security contributions. No social security taxes are currently levied in Singapore. However, there is a statutory savings scheme, known as the Central Provident Fund (CPF), to provide for employees' old-age retirement in Singapore. Only Singapore citizens and permanent residents working in Singapore are required to make CPF contributions. All foreigners (including Malaysians) are exempt from CPF contributions and are not allowed to make voluntary contributions. Money can be withdrawn from the CPF for specified purposes, including payment of certain medical expenses, funding investments in shares and purchasing residential housing.

2.4 **Manning issues with flying the Singapore flag**
Singapore ships must be manned by a minimum number of qualified officers in accordance with the scales stated under the Merchant Shipping (Training, Certification and Manning) Regulations, as amended.

All Singapore ships are required to be safely manned and hold an appropriate safe manning document (SMD) issued under the provisions of Regulation V/14 of the International Convention for the Safety of Life at Sea (SOLAS) 1974, as amended.

There are no restrictions on nationality of crew. Owners may engage officers and crews of any nationality to work on board Singapore ships, so long as they meet the standards laid down in the International Convention on Standards of Training, Certification & Watchkeeping for Seafarers (STCW) 1978, as amended.

3. **Corporate structure**

3.1 **Most commonly used legal structures for shipping activities**
The most common legal structure for owning and operating ships is the limited liability company. For private and listed shipping funds registered in Singapore, they are typically structured as registered business trusts.

3.2 **Taxation of profit distribution**
There is no dividend withholding tax in Singapore.

Dividends paid by a Singapore tax resident company are exempt from Singapore income tax in the hands of the shareholders. Distributions made by a registered business trust are also exempt from Singapore income
4. Grants and incentives

4.1 Specific and/or general subsidies for shipping companies
The Maritime and Port Authority of Singapore (MPA) has set up the Maritime Cluster Fund (MCF) to facilitate the growth of Singapore’s maritime sector by supporting the industry’s manpower, business development and productivity efforts. Various schemes and programs are available, including subsidies for approved marine-related courses and seminars and the co-funding of eligible expenses incurred in the initial development of new maritime companies or existing maritime companies and organizations expanding into new lines of maritime businesses. Support is also available to help the companies raise their productivity by enhancing business processes and workflow or adopting technology solutions.

4.2 Investment incentives for shipping companies and the shipbuilding industry
The government is committed to attracting international shipping companies, international ship management companies and ship agencies to establish and expand their operations in Singapore by offering various shipping tax incentives. There is no specific tax incentive for the shipbuilding industry.

4.3 Special incentives for environmental awareness
In 2011, the government launched the Maritime Singapore Green Initiative to promote environmentally friendly shipping. The Green Ship Program, one of the programs under the Maritime Singapore Green Initiative, is targeted at Singapore ships and is available for five years from 1 July 2011 to 30 June 2016. It provides incentives to shipowners that adopt energy-efficient ship designs that reduce fuel consumption and carbon dioxide emissions. Singapore ships registered on or after 1 July 2011 that exceed the requirements of the Energy Efficient Design Index (EEDI) of the International Maritime Organization (IMO) will enjoy a 50% reduction on the initial registration fees under both the normal registration and the Block Transfer Scheme during the registration of the ship. There will also be a 20% rebate on annual tonnage tax until the ship ceases to exceed the IMO’s EEDI, based on the phased-in time period.

Existing ships already using energy-efficient ship designs or have undergone major modifications that meet the requirements under the Green Ship Program may also enjoy the 20% rebate on annual tonnage tax until the ship ceases to exceed the requirements of IMO’s EEDI reference lines.

Effective from 1 July 2013, the Green Ship Program has been expanded to recognize Singapore ships that adopt approved sulphur oxide (SOx) scrubber technology that goes beyond existing IMO emission requirements. The SOx scrubber technology is to be an equivalent arrangement, in terms of SOx emission reductions, that is at least as effective as compared to using fuel oil with a sulphur content limit value of 0.50% m/m. Singapore ships with such approved SOx scrubber technology adopted will enjoy a 25% reduction of their initial registration fees and a 20% rebate on their annual tonnage tax. This is in addition to the 50% reduction of initial registration fees and the 20% rebate on annual tonnage tax for ships that exceed the IMO’s EEDI. Singapore ships that adopt both energy-efficient ship designs and approved SOx scrubber technology that exceeds IMO requirements will enjoy a 75% reduction of their initial registration fees and a 50% rebate on their annual tonnage tax.

4.4 Issues with flying the Singapore flag
Only Singapore citizens, permanent residents and Singapore-incorporated companies may be registered as owners of Singapore ships. For a company that is substantially owned by non-Singapore citizens, it must have a minimum paid-up capital of S$50,000 to be registered as owner of Singapore ships. Under the Block Transfer Scheme, this minimum paid-up capital requirement may be waived.

Singapore ships are subject to rules and regulations. Singapore is a party to all the major IMO conventions.
on ship safety and marine pollution prevention. The Singapore Registry is on the White List of key port state control regimes, with a dedicated flag state control unit that actively monitors, identifies and carries out enforcement actions on Singapore ships.

5. General information

5.1 Infrastructure

5.1.1 Major ports
The Port of Singapore has been one of the world’s busiest ports (by shipping tonnage) since 1986, receiving an average of 130,000 vessel calls annually. Being the world’s top transshipment hub, Singapore is connected to 600 ports in 120 countries, with daily sailings to every major port of call in the world. It is also one of the world’s top bunkering ports, with more than 40 million tons of bunkers being lifted in Singapore each year.

5.1.2 Port facilities
The Port of Singapore facilities include the container terminals, berths, cranes, storage facilities, port information systems, an approach channel and an intermodal transport system.

The Port of Singapore includes terminals located at Tanjong Pagar, Keppel, Brani, Pasir Panjang, Sembawang and Jurong. These terminals can accommodate all types of vessels, including container ships, bulk carries, roll-on/roll-off ships, cargo freighters, coasters and lighters.

The anchorages of the Port of Singapore are divided into three sectors: the Eastern Sector, the Jurong Sector and the Western Sector. Each anchorage has its designated purpose.

The Port of Singapore is the first port in the world to offer wireless mobile broadband connectivity, enabling the industry to improve operational efficiencies, enhance communications and generate new business opportunities.

5.1.3 Support services for the shipping industry
The following support services for the shipping industry are readily available:

- Ship financing
- Ship management
- Ship broking
- Maritime legal and arbitration services
- Marine insurance services
- Shipbuilding and repair

5.1.4 Maritime education
The MPA, in partnership with businesses, tertiary institutions and other maritime organizations, offers a wide range of maritime and shipping courses and executive programs, including maritime degree and diploma programs. This is to promote personnel development and expertise in the shipping industry.

The Integrated Simulation Centre in Singapore has a range of advanced simulators to provide realistic training for ship officers and crew.

5.2 Safety and environmental issues

5.2.1 Implementation of the International Safety Management Code on board vessels
All shipowners and companies undertaking international voyages with passenger ships and Singapore-registered ships (propelled by mechanical means) of 500 gross tons and above are required to comply with the International Safety Management (ISM) Code.

A company operating a Singapore-registered ship to which the ISM Code is applicable needs to have a
Document of Compliance (DOC) or an interim DOC. An up-to-date copy of the DOC should be placed on board the ships. A Singapore-registered ship to which the ISM Code is applicable will receive a Safety Management Certificate (SMC) or interim SMC after it has been verified that its shipboard management and its company operate in accordance with the approved safety management system.

The original or certified true copy of the compliance documents must be submitted to gain electronic port clearance into Singapore or be allowed to leave Singapore.

5.2.2 Safety rules regarding manning

Singapore has relatively strict safety rules regarding manning. The MPA has authorized internationally recognized classification societies to conduct audit and certification of Singapore vessels and managing companies for compliance with the code.

5.2.3 Special regulations on safety and the environment

Singapore is a party to all major IMO conventions on ship safety and marine pollution prevention. These include the 1974 Safety of Life at Sea Convention (SOLAS), the 1978 STCW Convention, the 1966 Load Lines Convention, the 1973/1978 MARPOL Convention and the 1969 Convention of Tonnage Measurement of Ships.

Singapore maintains a high level of vigilance over its port and waterways. The security measures that have been implemented include restricted access to waters surrounding port installations, targeted screening of containers, enhanced security at sea entry checkpoints, increased presence of patrol craft and selected escort of sensitive vessels by security agencies. The Port of Singapore was the first port outside of North America to sign the US Container Security Initiative.

5.3 Registration

5.3.1 Registration requirements

The registration of ships is governed by the Merchant Shipping Act. Only citizens or permanent residents of Singapore and companies incorporated in Singapore may be registered as owners of Singapore ships. A ship may be registered under a company incorporated in Singapore with more than 50% of the equity owned by noncitizens of Singapore, provided the company has a minimum paid-up capital of S$50,000 and the ship is at least 1,600 gross tonnage and self-propelled. Exemption from the latter requirement may be given on a case-by-case basis if the ship is operated from or based in Singapore.

Various types of vessels can be registered as Singapore ships. They include semi-submersible rigs, jackup rigs, accommodation rigs and tender rigs used for oil exploration, as well as barges, dredgers and other vessels that are used for offshore oil and gas activities.

A locally owned company may register a tug or barge provided it has a paid-up capital pegged to 10% of the value of the first tug or barge under its ownership or S$50,000, whichever is the lesser, subject to a minimum paid-up capital of S$10,000. Its holding company, if any, must also have the same amount of paid-up capital.

5.3.2 Ship registration procedures

Application has to be submitted to the Singapore Registry of Ships (SRS) for an ordinary registration. The applicant must seek approval for a ship's name or to reserve a ship's name, and an official and call sign numbers would be issued upon successful reservation of the ship's name. The application form together with relevant documents – such as particulars of the owners, evidence of ownership, value of the ship, tonnage certificate, class certificate and others – must be submitted.

The initial registration fee and annual tonnage tax for the ordinary registration are as follows:

- Fees for ordinary registration: The initial registration fee is S$2.50 per net ton (NT), subject to a minimum of S$1,250 (500 NT) and a maximum of S$50,000 (20,000 NT).
- Annual tonnage tax: 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 that the ship was initially registered or re-registered, as the case may be. No refund of tax will be made if, during the year for which the tax was
paid, the registry of the ship was closed for any reason. The annual tonnage tax is S$0.20 per NT, subject to a minimum of S$100 (500 NT) and a maximum of S$10,000 (50,000 NT).

- Fees under the Block Transfer Scheme: The fees are S$0.50 per NT, subject to a minimum of S$1,250 (2,500 NT) and a maximum of S$20,000 (40,000 NT) per ship. Ships that are registered within a reasonable period of time and meet the following criteria are eligible for the Block Transfer Scheme:
  - Two ships with aggregate tonnage of 40,000 NT
  - Three ships with aggregate tonnage of 30,000 NT
  - Four ships with aggregate tonnage of 20,000 NT
  - Five ships of any aggregate tonnage

Application for the Block Transfer Scheme has to be submitted prior to registering the first ship.

This scheme has been enhanced from 1 January 2009 to allow a single ship of 40,000 NT or more to qualify for the scheme.

5.3.3 Parallel registration

A Singapore ship may be bareboat chartered out and registered outside Singapore in the name of the bareboat charterer. The Singapore registry must be suspended during the charter period. Bareboat charter means the hiring of the ship for a stipulated period, giving the charterer possession and control of the ship, including the right to appoint the master and crew.

5.3.4 Requirements for officers and crew serving on vessels

There is no restriction on the nationality of the crew on board Singapore ships. However, all crew must meet the standards laid down in the 1978 STCW Convention as amended. Foreign officers and engineers in possession of valid foreign certificates of competency are allowed to serve on Singapore ships as long as their certificates are appropriate to the capacity in which they are employed. No prior approval is required, but owners of ships must apply for a certificate of endorsement (COE) to allow holders of the foreign certificates to serve on Singapore ships. The COE is valid for five years or until the expiry date of the certificate of competency, whichever is earlier.

5.3.5 International conventions regarding registration

Ships have to comply with the relevant requirements laid down in the major IMO conventions, to which Singapore is a party (e.g., SOLAS 74, 1978 STCW Convention, 1966 Load Lines Convention, TM69 and MARPOL 73/78). Dispensations may be granted to ships of novel design or construction or under special operating circumstances. Equipment and arrangements approved by other maritime administrations that comply with the IMO convention are generally accepted.

5.3.6 Special requirements or rules with regard to registration

Every name to be used for a Singapore ship must be approved, even if there is no change in name from its previous registry. A copy of the ship's classification certificate issued by an authorized classification society may be accepted as evidence of seaworthiness.

6.0 Consulted resources

1. Tax

1.1 Tax facilities for shipping companies

In principle, a company is liable for taxation independently and group taxation is not available in South Africa. Normal company tax is calculated at a flat rate of 28% of a company's taxable income.

Income exemption for ships used in international shipping

International shipping income of any international shipping company is exempt from normal tax for years of assessment commencing on or after 1 April 2014. An “international shipping company” means a company that is resident in South Africa that holds shares in one or more South African ships that are utilized in international shipping. International shipping is defined as the conveyance for compensation of passengers or goods by means of operation of a South African ship (i.e., a ship registered in the Republic of South Africa in accordance with the Ship Registration Act, 1998) mainly engaged in international traffic. The exemption for qualifying international shipping companies includes exemptions from normal tax, capital gains tax, dividends tax, and cross-border withholding tax on interest.

Exemption for nonresident shipowners or charterers

Where a nonresident carrying on international shipping is not protected in terms of a double tax treaty between South Africa and the country where that person is resident (refer to section 1.3), there is a specific exemption that may apply to exempt the receipts and accruals derived by that nonresident from carrying on the business as the owner or charterer of any ship in South Africa. This exemption is, however, subject to the condition that a similar exemption or equivalent relief is granted to a South Africa resident by the country where that shipowner or charterer is resident on income derived from carrying on the business as owner or charterer of any ship in that other country.

Special depreciation allowance

A ship that was brought into use on or after 1 April 1995 for the first time by a taxpayer for the purposes of trade can be written off on a straight-line basis over five years. This allowance is not prorated for a partial year’s use.

Ships brought into use before 1 April 1995 were granted a 40% allowance in the first year, and a straight-line wear and tear allowance of 10% in subsequent years, based on the adjustable cost of the ship.

An allowance may be claimed for scheduled major repairs to any ship to be incurred within the following five-year period. The allowance is calculated on a scaled percentage of the anticipated cost of repairs over the ensuing five years.

Anti-avoidance provisions

Where a taxpayer acquires a ship from a person and subsequently leases that ship back to that person, the depreciation allowances available to the lessor must be calculated based on the lesser of the adjustable cost to the seller or the market value on the date of acquisition by the lessor. This applies where the ship is acquired directly or indirectly from the lessee or a connected person in relation to the lessee, and the lessee had previously claimed the depreciation allowances.

Zero rating for value-added tax (VAT) purposes

In general, services provided by a shipping company engaged in international shipping are zero-rated. However, complex VAT rules apply and it is advisable to obtain professional advice.

Goods and services supplied to a shipping company engaged in international shipping will generally be zero-rated. However, complex VAT rules apply and it is advisable to obtain professional advice.

Shipping companies making regular and/or continuous supplies of goods and/or services in South Africa
(including ship leases) will become liable to register for VAT if the value of these supplies exceeds (or is expected to exceed) ZAR1 million in a 12-month period. Failure to register is an offence punishable with a fine or imprisonment.

Residence basis of taxation

South African residents (individuals and business entities) are taxed on their worldwide income, which in the absence of double tax relief may lead to double taxation and the need to claim foreign tax credit relief in South Africa. However, these general rules may be overridden by double tax agreements, which often make reference to shipping companies and provide rules for the jurisdiction in which profits should be taxed (see section 1.3).

There are complex rules regarding the determination of taxes payable in South Africa and professional advice in this area should be sought.

Capital gains tax (CGT)

CGT was introduced, effective 1 October 2001. CGT is levied at an effective rate of 18.65% (for all years of assessment commencing on or after 1 March 2012) on gains made by a South African company, while an individual will pay CGT at a maximum effective rate of 13.65%. CGT is levied on the disposal or deemed disposal of a resident's worldwide assets. In the case of nonresident companies, CGT is levied on the disposal of immovable property situated in the country, as well as on assets of any permanent establishment it may have in the country.

1.2 Tax facilities for seafarers

Payments for services rendered by South African residents, as officers or members of the crew of such ships, are taxable in South Africa. However, remuneration received by an officer or crew member serving on a ship engaged in the international transport of passengers or goods is exempt from tax if the person is outside the Republic of South Africa for more than 183 days during the year of assessment.

In the event that the vessel concerned is not engaged in international transport (as in the case of offshore oil exploration and production activities), different rules may apply.

1.3 Tax treaties and place of effective management

South Africa has concluded a large number of comprehensive agreements, most of which are based on the Organisation for Economic Co-operation and Development (OECD) model treaty for the avoidance of double taxation.

Broadly, the tax treaties ensure that profits arising from international traffic will be taxed in the jurisdiction of the place in which the effective management of the entity concerned is situated. However, in certain circumstances, the state in which the place of effective management is situated may not be the state in which a ship-operating enterprise is domiciled. Therefore, some treaties confer the exclusive right to tax to the state of residence.

1.4 Freight taxes

Where a nonresident is subject to tax in South Africa as the owner or charterer of any ship, freight taxes are levied at an effective rate of 2.8% (10% of the corporate income tax rate) on the South African earnings of the nonresident. In most cases, freight taxes will be overridden where a tax treaty exists.

1.5 Special vessel registration tax benefits for the shipowner

There are no tax benefits other than those noted in section 1.1.

1.6 Tonnage tax

South Africa does not have a tonnage tax regime in place. A 2006 proposal for tonnage tax was abandoned in favor of the outright exemption for South African shipowners, as noted in section 1.1.
2. Human capital

2.1 Formalities for hiring personnel
Every seafarer is required to have completed a period of pre-sea training, and must be proficient in an official language of the Republic of South Africa in order to fully understand any important information given in the performance of his or her duties.

2.2 National labor law
South African laws relating to the employment and service of masters, officers and crew on board ships are a mixture of private rights and obligations, statutory controls and supervision.

Many aspects of seafarers' wages are regulated by statute in South Africa, though primarily in relation to South African ships. Service conditions on board foreign ships are controlled by the law of their flags, or by the law chosen by the parties in their employment contract.

All South African ships of more than 100 tons are required to have on board a written agreement with the crew, binding each seafarer to a contract of employment. The contract should contain all the terms and conditions of employment. Any matter not specifically dealt with in the contract of employment will be subject to either the company's policies or procedures or to the provisions of the Labour Relations Act.

2.3 Regulations on employing personnel
Should foreign workers be employed, a work permit must first be obtained.

2.4 Collective labor agreements
The agreement to comply with the International Convention of Standards of Training, Certification and Watchkeeping for Seafarers (STCW)

This agreement includes the duration of the intended voyage, a description of the crew, working hours, the capacity of the seafarer, wages to be paid and scale of provisions.

The Labour Relations Act no. 66 of 1995 came into effect in November 1996. Its stated purposes include giving effect to and regulating rights conferred by Section 27 of the South African Constitution, giving effect to obligations incurred by South Africa as a Member State of the International Labour Organization (ILO) and providing a framework for collective bargaining, employee participation in decision-making in the workplace, and the effective resolution of labor disputes.

South Africa has a commitment under UNCLOS (United Nations Convention on the Law of the Sea) Article 94 to “assume jurisdiction under its internal law over each ship flying its flag, and its master, officers and crew, in respect of social matters concerning the ship.” The Labour Relations Act no. 66 of 1995 does just that, and it should be seen as complementing the employment and wage stipulations of the Merchant Shipping Act.

Where a shipowner has terminated a seafarer's employment because of “operational requirements,” the shipowner must pay at least one week's remuneration for each completed year of continuous service with that shipowner.

There are prescribed limits of compensation for occupational injury suffered in the workplace — in the case of ships and seafarers, on board or ashore — in the execution of employment duties.

2.5 Treaties relating to social security contributions
Social security contributions are governed by the Admiralty Jurisdiction Regulation Act, which specifically includes contributions to any pension fund, medical aid fund or benefit fund.

2.6 Manning issues with flying the South African flag
Whether a vessel is South African-flagged or not is immaterial to the tax treatment of the crew members.
3. Corporate structure

3.1 Most commonly used legal structures for the operation of shipping activities
Most companies operate either as a closely held company (private company) or a widely held company (listed or unlisted public company). The liability of the shareholders is limited to their interest in the share capital of the company. The company is liable for taxation independently. Normal company tax is calculated at a flat rate of 28% of the company’s taxable income for all years of assessment ending on or after 1 April 2008.

3.2 Tax on profit distribution
In addition to normal tax, Dividends Tax is payable at a rate of 15% (subject to a reduced rate under an applicable double tax treaty) of the dividends declared. Dividends Tax replaced Secondary Tax on Companies on 1 April 2012. It is a tax on the beneficial owners of dividends (normally the shareholder) on the amount of any dividend received from a company and is applicable to any dividend declared on or after 1 April 2012 (if a dividend was declared before 1 April 2012 it will still be subject to Secondary Tax on Companies at a rate of 10% of the dividends declared). Dividends Tax must be withheld by either the company distributing the dividend or by “regulated intermediaries” and paid by the end of the month following the month in which the dividend was paid or became payable.

4. Grants and incentives

4.1 Specific and/or general subsidies available for shipping companies
There are currently no grants or incentives.

4.2 Investment incentives for shipping companies and the shipbuilding industry
Other than depreciation of the ship over five years, there are no incentives.

4.3 Special incentives for environmental awareness
There are no special incentives.

4.4 Issues with flying the South African flag
There are no subsidies for flying the South African flag.

4.5 Major changes in shipping subsidy legislation in the near future
No changes are expected other than the proposed tonnage tax discussed in 1.6.

5. General information

5.1 Infrastructure
Transnet National Ports Authority is a division of Transnet Limited and is mandated to control and manage all seven commercial ports on the 2,954km South African coastline. Situated at the tip of the African Continent, the South African ports are well situated to serve both the eastern and western seaboards.

Transnet National Ports Authority is the national port authority in southern Africa and is responsible for controlling the commercial ports in South Africa. These ports are Cape Town, Durban, East London, Mossel Bay, Ngqura, Port Elizabeth, Richards Bay and Saldanha.

Each South African port has a natural hinterland with a defined market that largely determines the nature and types of cargo handled at that port. Ports, mainly Durban, also serve Gauteng, which is the economic center of South Africa and is located approximately 600km from the coast. Ports are serviced by extensive road and rail transport facilities. High-volume rail corridors support containers and resource exports, including iron ore, coal and manganese.
The terminals are operated by both a state-owned enterprise (Transnet Port Terminals) and private terminal operators.

5.1.1 Major ports
The major ports and terminal types are:
- Cape Town:
  - Multipurpose terminals and a container terminal
- Durban:
  - Container terminals, multipurpose terminals, a car terminal, a coal terminal and a bulk liquid terminal
- Richards Bay:
  - A dry bulk terminal, a multipurpose terminal and a coal terminal
- Saldanha Bay:
  - Multipurpose and bulk terminals

Other ports
- Ngqura:
  - An industrial development zone (IDZ), known as the Coega IDZ, has been developed over the 12,000ha site and will serve as a primary location for new industrial growth for export-driven industries.
  - The port is of a deep water construction designed to support the international trend toward larger vessels. It is capable of serving post-Panamax vessels in excess of 8,000 TEUs. Operation of the port commenced with container operations in October 2009.
- East London:
  - A multipurpose terminal, a bulk terminal and a car terminal
- Mossel Bay:
  - Caters mainly to the fishing and oil industry and oil rigs that operate off Mossel Bay
- Port Elizabeth:
  - A container terminal, a car terminal, a multipurpose terminal and a bulk manganese terminal

5.1.2 Port facilities
The following facilities and services are available at most ports:
- Stevedoring
- Storage
- Bunkering
- Ship chandler firms
- Tugboats
- Helicopters
- Cranes
- Maintenance and repair
- Docking
- Shipyards and repairs
- Trucking
- Rail connections
Many of these facilities and services are provided by both contractors and the port itself. It is important to contact the port to verify the facilities and services currently available.

5.1.3 Tariffs
The port authority levies the following types of applicable charges on vessels calling at the port:
- Light dues
- Pilotage services
- Marine services
- Cargo dues


Terminal operators levy terminal handling charges for handling of cargo on and off vessels.

Any vessel that is present in South Africa for a period longer than six months will be treated as an import with the consequential VAT, customs and duty implications.

5.1.4 Support facilities for the shipping industry
The following services are available:

- Shipowners and operators
- Ship agents
- Clearing and forwarding agents
- Banks with a shipping desk
- Consulting firms specializing in shipping
- Maritime law services
- Insurance brokers

5.1.5 Maritime education
Students in the last three years of their secondary education can obtain an education in maritime subjects, which is offered at some educational institutes.

Maritime studies are offered by higher education institutions in South Africa, namely Durban University of Technology and Cape Peninsula University of Technology (CPUT, in Cape Town). Formal education in marine navigation and marine engineering, and non-formal training in offshore safety and survival, are also offered. The Maritime Studies Department at CPUT boasts the only offshore survival center in Africa and trains 2,500 students from Africa and beyond.

There are a number of institutions in the country that provide training courses for merchant marine officers. Maritime degrees are offered at three universities, namely the University of Cape Town, the University of KwaZulu-Natal and the University of Stellenbosch. Some of the courses offered are maritime law, maritime economics, shipping economics, port economics, maritime policy, ship management and intermodal transport and logistics.

5.2 Safety and environmental issues

5.2.1 Implementation of the International Safety Management Code on board vessels
Safety of ships and life at sea is dealt with in the Merchant Shipping Act 57 of 1951. Under the Merchant Shipping Act, the minister of transport can publish regulations further governing the operation of ships and bringing into effect international safety conventions and their amendments.

The Merchant Shipping Act regulates:

- Construction of ships, provision of life-saving appliances and installation of radios
- Safety convention certification
- Load lines
- Safety of navigation
- Collisions, accidents at sea and limitation of liability

Conventions that have so far been incorporated are:

- International Convention on Load Lines, 1966
- International Convention for the Safety of Life at Sea, 1974 with 1978 Protocol (SOLAS)
Compliance with international safety conventions and domestic safety requirements is monitored by the South African Maritime Safety Authority (SAMSA). This authority was established as a juristic person under Act 5 of 1998. Its objectives are:

- To ensure safety of life and property at sea
- To prevent and combat pollution of the marine environment by ships
- To promote the republic’s maritime interests

Please refer to SAMSA for legislative requirements and further details.

5.2.2 Safety rules regarding manning
The ISM Code came into force on 1 July 1998 for all passenger ships, oil tankers, chemical tankers, gas carriers, bulk carriers and cargo high-speed craft of 500 gross tons or more. All other cargo ships and mobile offshore drilling units of more than 500 gross tons became subject to the ISM Code with effect from 1 July 2002.

In South Africa, the ISM Code was effected through the publication of the Merchant Shipping (ISM Code) Regulations, 1998.

The regulations constitute SAMSA as the certifying authority, which is empowered to issue a document of compliance and safety management certificate to a company that complies with the requirements of the ISM Code.

5.2.3 Special regulations on safety and the environment
The ISM Code has created new maritime safety standards for shipowners and operators. It envisages a safety management system on board every ship, which will outline the safety and environmental protection policy, instructions and procedures to implement such a policy. Such a safety management system should be subjected to formal certification by a competent state authority, such as SAMSA.

5.2.4 International Ship and Port Facility Security (ISPS) code — maritime security
Far-reaching maritime security measures have been introduced worldwide due to the events of 11 September 2001. SOLAS Chapter 11 has been amended to provide for the inclusion of an international code for the security of ships and port facilities, known as the ISPS code. All commercial ports are ISPS compliant.

In addition to the ISPS, a further security initiative, the Container Security Initiative (CSI), has been introduced by the United States of America: the Port of Durban participates in this program.

5.2.5 Cargo-related risk
The advanced manifest system implemented has been implemented at the Durban port.

In June 2003, six months prior to commencement of the security initiative, U.S. Customs and Border Protection (CBP) and the South African Revenue Service (SARS) signed a Declaration of Principles to participate in the CSI.

The CSI requires that containerized cargo be declared 24 hours in advance as per the vessel cargo declarations. Furthermore, the program also requires that the US deploy a team of CBP officers to the Port of Durban to work with the South African Customs and Excise personnel to target high-risk cargo containers destined for the United States.

Officials of SARS are responsible for screening any container identified jointly with CBP officers as a potential terrorist risk.

5.3 Registration
5.3.1 Registration requirements
A South African-owned ship is one that is owned by:
• South African citizens or citizens of a treaty country
• A body corporate established under the laws of the Republic of South Africa, with a place of business in the Republic of South Africa or a treaty country
• The government of the Republic of South Africa

5.3.2 Ship registration procedure
The following documents are required to register a ship:
• Declaration of ownership
• Certificate provided by the builder, including size, dimensions and tonnage of the ship and time and place where it was built
• Deed of sale of the ship (if there was a sale)
• In the case of a ship that was forfeited, notice of forfeiture of a ship registered elsewhere, and proof that the ship is no longer so registered

Ships that are entitled to be registered are:
• South African-owned ships
• Small vessels wholly owned by South African residents, or South African residents and South African nationals, or operated solely by South African residents or South African nationals or both
• Ships on bareboat charter to South African nationals

A ship is required to be marked in the prescribed manner with marks as directed by the registrar.

A registered ship may not be described by any name other than the name by which the ship is currently registered.

On completion of the registration of a ship, the registrar must issue a registration certificate for the ship in the prescribed form.

A ship that is to be registered must be surveyed by a surveyor.

5.3.3 Parallel registration
The registrar may not register a ship if it is registered under the law of another state unless:
• In the case of a South African-owned ship, it was acquired pursuant to an order of court
• In the case of a ship on bareboat charter to a South African national, the evidence has been lodged with the registrar

If the ship has been registered at any time under the law of another state, and an application is made for registration, evidence is required to establish:
• That the ship is no longer registered under the law of another state and all reasonable steps to secure the termination of the ship's registration have been taken
• That steps have been taken to terminate the registration under the law of another state and the owner gives his or her consent

5.3.4 Requirements for the officers and crew serving on vessels
The master may enter into an agreement with the crew that will detail particulars of the voyage, working times, the capacity in which a crew member is to serve, wages and provisions to be received and regulations, details of crew, and particulars of deck line and load line.

5.3.5 International conventions regarding registration
The Merchant Shipping Act incorporates STCW.

5.3.6 Special requirements/rules relating to registration
A South African ship may be mortgaged as security for a loan and registered in the deeds registry. If any further mortgages are raised, they rank as from the date and time the mortgage is recorded on the certificate.
6. References

For further information, please refer to the following websites:

South African Marine Safety Authority (SAMSA):
www.samsa.org.za

South Africa Association of Ship Operators and Agents:
www.saasoa.com

Transnet Port Terminals, Transnet National Port Authority, Transnet Pipelines:
www.transnet.net

South African Association of Freight Forwarders:
www.saaff.org.za

Maritime Services Directory listing:
www.ports.co.za

Black Economic Empowerment Charter and Department of Trade and Industry:
Spain

1. Tax

1.1 Tax facilities for shipping companies

The following tax facilities are available to shipping companies:

- Tax lease system
- Tonnage tax
- Canary Islands allowances
- Tax credits for investments in safety and environmental issues related to ships

**Tax lease**

The Spanish Corporate Income Tax (CIT) Act provides a special depreciation regime for certain assets (including ships) acquired under special leasing agreements.

**The former regime**

Article 115 of the CIT Act established a special tax regime for certain leasing agreements. According to this article, the finance lease installments would be treated as tax deductible for CIT purposes, so long as they do not exceed twice the maximum straight-line depreciation rates of the leased asset (the excess over such limit would be tax deductible in the following years, always respecting the limit). The CIT Act also allows the accelerated depreciation to start earlier, before the vessel enters into operation, under certain conditions.

On 1 July 2011, the European Commission launched an in-depth investigation to determine whether the Spanish tax lease system for acquiring vessels was compatible with European Union (EU) state aid rules (see case SA.21233). In July 2013, the European Commission ultimately concluded that the Spanish scheme for the purchase of ships involving leasing and financing through tax relief was partly incompatible with EU rules. Under EU rules, the beneficiaries have to repay the aid to the Spanish state. In accordance with the principle of legal certainty, the commission did not require the repayment of aid granted between the start of the scheme in 2002 and April 2007, when the European Commission publicly declared a similar French scheme incompatible.

As a consequence of this investigation, and even though it was not over yet at the moment of changing the legislation, Spain decided to introduce changes to the provisions of the CIT regulating the tax lease, through Law 16/2012 as of 27 December 2012. This new tax lease regime was approved by the European Commission in November 2012, which announced that it does not constitute state aid under the EU rules.

On 17 December 2015, the Court of Justice of the EU resolved the state aid procedure regarding the Spanish former tax lease regime, by annulling the decision of the European Commission, which considered a part of the former Spanish tax lease regime to be incompatible with EU regulations.

After a long investigation, which began in 2006, the European Commission announced on 17 July 2013 that the Spanish tax scheme for the construction and acquisition of new vessels is incompatible in part with EU rules on state aid and that the aid granted between 2007 and 2011 should be refunded to the Spanish Treasury. The European Commission also announced that the decision about when, how and in what amount the aid will be refunded is a matter for the Spanish government; however, there is still no guidance as to how this refund should be made.

**The new regime**

The new tax system, which was approved by Law 16/2012 and has been replicated in the new Corporate Income Tax Act (new CIT Act), still provides for the early and accelerated depreciation of certain assets (not

\[1\] Ley 27/2014 of 27 November
only vessels) acquired under finance lease agreements, whose construction period is at least 12 months and meets the client’s technical specifications, specifically excluding assets that are serially manufactured. For those assets not complying with the particular conditions, accelerated depreciation up to twice the maximum straight-line depreciation rate is available, but only after delivery.

In addition, prior authorization is no longer required, since the application of this system is automatic, only subject to the prior notification to the Ministry of Economy and Finance.

Finally, the possibility of taxing the capital gain derived in the tonnage tax at a reduced rate was eliminated. In the new regime, after applying the tax lease, ships may opt for the application of the tonnage regime, but the capital gain obtained at the ships’ disposal will be taxable at the general regime rate.

Law 16/2012 introduced a transitional provision under which assets that had obtained an authorization to apply the regime before 1 January 2012 would be governed by the previous legislation.

The new regime that was enacted followed the holding of the European Commission decision, which declared the former regime as illegal state aid; however, the European Commission decision was annulled by the Court of Justice of the EU in December 2015. After the new regime was enacted, and once approved by the European Commission, the Netherlands Maritime Technology Association filed a claim before the General Court of Justice of the EU, stating that the new regime was not adequately analyzed, and that it should still be considered as illegal state aid, as it was equivalent to the former Spanish tax lease. The Court of Justice of the EU dismissed this claim, and the claimant filed an appeal before the Superior Court of Justice of the EU, which is pending resolution. After the aforementioned resolution of the Court of Justice of the EU annulling the decision on the former regime, we believe that this claim is not likely to be successful.

**Tonnage tax**

Under the Spanish CIT provisions, shipping companies are entitled to apply for the tonnage tax regime so that their profits from shipping activities can be determined at fixed rates according to the tonnage of their ships, rather than by variable business results.

Tonnage tax only applies to shipping companies registered with those registries (per Article 251 and Provision 16 of the Royal Legislative Decree 2/2011) that carry out the whole technical and crew management of the qualifying ships (see below).

Tonnage tax applies to qualifying ships, i.e., ships that meet all of the following conditions:

- They must be strategically and commercially managed from Spain or from another EU Member State.
- They must be suitable for navigation in high seas and used exclusively for one or more of the following services: carriage of passengers, carriage of cargo, and rescue, towage, dredging or other necessary services provided at sea.

As of 31 March 2006, for ships providing towage services, in order to qualify for the application of the tonnage tax, at least 50% of the income of the ship must proceed from activities carried out in the ports. For ships providing dredging services, at least 50% of their income must proceed from the transport and deposit in the deep sea materials.

Tonnage tax does not apply to ships used for sports, fishing or entertainment activities, nor is it applicable if all of the company’s ships are registered in a country other than Spain or any other EU Member State.

Profits from non-shipping activities will be computed by reference to normal rules, whereas tonnage tax profit will be computed in the manner that follows.

**Taxable base**

For ships applying the special tonnage tax regime, the taxable base is determined by following the rules of the objective estimation scheme, which means that the calculation of the taxable base is obtained by applying fixed modules to the registered tonnage scales.
For the computation above, only days on which the vessels are available for navigation must be taken into account. Accordingly, days on which ships are being repaired must be disregarded.

The above computation includes income from services rendered to the vessels included in the tonnage tax regime (piloting, towage and mooring), as well as income from services related to the vessel's cargo (loading and trimming).

**Capital gains derived from the transfer of vessels**

In order to calculate the taxable base of capital gains and losses arising from the disposal of a vessel used in tonnage tax, the timing of the application of the special regime must be taken into account:

- In the case of vessels subject to the tonnage tax from the moment of acquisition, the capital gains and/or losses derived from the transfer of the vessel should be included in the taxable basis, calculated in accordance with the aforementioned method. Therefore, in practice, they are tax-exempt. This rule does not apply if the vessel is already being used at the time of acquisition.

- As previously stated, Law 16/2007 also introduced changes regarding the tonnage tax that affect the transition from one system to another. It repealed the provision that, upon entering the tonnage system, vessels acquired by exercising the purchase option under a lease agreement will not be regarded as used vessels, thereby eliminating the possibility to benefit from the early and accelerated depreciation and the tonnage tax for the gain derived in a future sale.

- In the case of vessels subject to the tonnage tax after acquisition, capital gains derived from the transfer of the vessel should be included in the taxpayer CIT base and would be taxable at the general tax rate of 30%. The following special rules must be observed:
  - The company must either provide funds for a non-distributable reserve equivalent to the positive difference between the market value and the net book value corresponding to the relevant ship or include a special mention of such difference in the explanatory notes to the annual accounts.
  - Upon disposal of the ship, the value of the non-distributable reserve plus the difference between the book and tax depreciation will be added to tonnage profit.

Taxable income will be subject to a 25% CIT.

Tonnage tax is an optional scheme. The application, however, will be conditional upon an express authorization. Companies electing it will do so for 10 years, and the election may be renewed for an additional 10 years.

**Canary Islands allowances:**

- Capital transfer and document tax: exemption for the acts and contracts made on the ships registered in the Special Registry of Ships and Shipping Companies of the Canary Islands (Special Registry)
- Personal income tax and nonresident income tax (crew members): allowance of 50% of the total income derived from the work on ships in the Special Registry; in the case of ships involved in the carriage of passengers between EU ports, only applies to crew members who are citizens of an EU or European Economic Area (EEA) Member State
- CIT: tax credit of 90% of the taxable turnover arising from the exploitation of ships registered with the Special Registry

For more information on tax credits for investments in environmental issues, see section 4.3.

<table>
<thead>
<tr>
<th>Tonnage</th>
<th>Taxable income per day per 100 tons (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0–1,000</td>
<td>0.90</td>
</tr>
<tr>
<td>1,001–10,000</td>
<td>0.70</td>
</tr>
<tr>
<td>10,001–25,000</td>
<td>0.40</td>
</tr>
<tr>
<td>More than 25,000</td>
<td>0.20</td>
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</tbody>
</table>
1.2 **Tax facilities for seafarers**
For crew members on ships registered in the Special Registry, an allowance of 90% has been established for the employer’s contribution to national insurance. If those ships are involved in the carriage of passengers between EU ports, the allowance referred to above only applies to crew members who are citizens of an EU/EEA Member State.

Conversely, the Spanish personal income tax law establishes several allowances for the amount paid by the shipping company to compensate for living and transport expenses. These facilities only apply to crew members who are citizens of an EU/EEA Member State on ships carrying passengers.

1.3 **Freight taxes**
Freight taxes do not apply in Spain.

1.4 **Special vessel registration tax benefits for the shipowner**
The registration of the vessel in the Special Registry of the Canary Islands is not subject to the special tax on certain means of transport.

1.5 **Changes to tax law anticipated in the near future**
A major tax reform has recently taken place in Spain resulting in the approval of a new CIT Act, which has entered into force as of 1 January 2015. Therefore, no changes to the law are anticipated in the near future.

2. **Human capital**

2.1 **Formalities for hiring personnel**
The following documents are requested in order to sign the shipping employment contract:

- Maritime registration notebook
- Professional qualification or competence certificate
- Medical certificate

2.2 **National labor law**
In the case of a ship registered in Spain, Spanish labor law applies to crew members.

2.3 **Regulations on employing personnel**
There are no significant regulations to take into account when hiring personnel in Spain.

2.4 **Collective labor agreements**
There is no national collective agreement, but there are several collective company agreements governing the general employment conditions. In the absence of a collective company agreement, common labor law governs the employment conditions. Royal Decree 1561/1995 (modified by Royal Decree 285/2002) provides specific regulation regarding the working days of the ships registered in Spain.

2.5 **Treaties relating to social security contributions**
EU regulations and bilateral agreements apply to these employees. Please note that there is a special social security system for the shipping industry that is slightly different from the general provisions.

2.6 **Manning advantages and disadvantages of flying the Spanish flag**
Flying the Spanish flag involves the application of the Spanish labor law.

3. **Corporate structure**

3.1 **Most commonly used legal structure(s)**
The most common legal structures are the sociedad de responsabilidad limitada (S de RL) or sociedad
3.2 Taxation of profit distribution
Taxation on distribution of profits derived by Spanish-resident shipping companies depends on the recipient’s tax residence so that the distribution may be either tax-exempt under the EU Parent-Subsidiary Directive or benefit from reduced withholding tax rates under double taxation agreements. Where no tax exemption or reduced tax rates can be applied, 19% (21% for years 2012, 2013 and 2014; 20% from 1 January to 12 July 2015; and 19.5% from 12 July to 31 December 2015) withholding tax shall be charged.

4. Grants and incentives

4.1 Specific and/or general subsidies available to shipping companies
No subsidies or substantial grants for the shipping industry can be identified besides the tax advantages applicable to shipping companies (see section 1.1) and the incentives referred to in section 4.2.

4.2 Investment incentives for shipping companies and the shipbuilding industry
The Spanish government provides financial support to Spanish shipbuilding companies that comply with certain requirements in accordance with Spanish Royal Decree 442/1994. A Spanish-resident company may obtain a State guarantee in the acquisition or renovation of vessels according to each year’s National Budget Law. The guaranteed amount cannot be greater than 35% of the financed price.

4.3 Special incentives for environmental awareness
The investments intended for the protection of the environment, which improve the minimum requirements of the regulations, will benefit from an 8% deduction if they are investments included in programs or agreements approved by the Spanish environmental authorities, who will have to certify them.

4.4 Advantages and disadvantages of flying the Spanish flag
Flying the Spanish flag does not have special advantages other than the ones mentioned above related to the special Canary Islands regime. The tonnage tax is available for any EU flag. In addition, flying the Spanish flag means more administrative burdens.

4.5 Major changes in shipping subsidy legislation anticipated in the near future
Not applicable.

5. General information

5.1 Infrastructure

5.1.1 Major ports

5.1.2 Port facilities
The following facilities are available:
- Maintenance and repair
- Docking
- Storage
5.1.3 Support services for the shipping industry
The following support services for the shipping industry are readily available:

- Banks with a shipping desk
- Consulting firms specialized in shipping
- Maritime law services
- Insurance brokers for the shipping industry

Spain

5.1.4 Maritime education
Maritime education is provided in Spain by:

- E.T.S.I. Navales (Madrid)
- E.U.I.T. Naval (Cádiz)
- Escuela Politécnica Superior (Ferrol, La Coruña)
- Centro Superior de Náutica y Estudios del Mar (La Laguna, Santa Cruz de Tenerife)
- Escuela Superior de Marina Civil (Oviedo, Asturias)
- Escuela Técnica Superior de Náutica (Universidad de Cantabria)
- Escuela Universitaria Politécnica (Las Palmas de Gran Canaria)
- Facultat de Náutica (Barcelona)
- Escuela Universitaria de Ingeniería Técnica Naval (Cartagena, Murcia)

5.2 Safety and environmental issues

5.2.1 Implementation of the International Safety Management Code on board vessels
Ships registered under the Spanish flag are required to comply with the International Safety Management (ISM) Code. All Spanish shipping companies currently comply with requirements of the International Convention for the Safety of Life at Sea (SOLAS) regarding the ISM Code.

5.2.2 Safety rules regarding manning
The safety rules regarding manning can be characterized as strict. There is a wide range of regulations covering safety issues in order to meet new international and EU standards.

5.2.3 Special regulations on safety and the environment
Spain has ratified the main international treaties regarding marine pollution and safety, such as the International Convention for the Prevention of Pollution from Ships (MARPOL) and SOLAS.

After the sinking of the Prestige vessel, the Spanish government committed to reinforcing safety and environmental policies. In this respect, Royal Decrees 90/2003 and 91/2003 established very strict procedures to prevent pollution in the maritime environment from oil or other hazardous substances from ships. During 2005, two other Royal Decrees were adopted: RD 119/2005, which establishes means of control over the risks linked to accidents with hazardous substances, and RD 276/2005, related directly to the sinking of the Prestige.

5.3 Registration
Registration can be applied for either at the Registry of Ships and Shipping Companies or at the Special Registry. The latter ensures social and tax conditions equal to or better than those provided by registration with the former. Both registries are managed by the Mercantile Maritime Authorities.

In addition, vessels flying the Spanish flag must register with the Registry of Movable Assets (Registro de Bienes Muebles). Any circumstances affecting the legal status of the vessels must be communicated to this registry. In particular, the mortgages on vessels shall not be effective unless they are duly registered. Sections 5.3.1, 5.3.2 and 5.3.3 refer to the Spanish Ships Registry.
5.3.1 Registration requirements

**General requirements**

Both Spanish-resident individuals and legal entities domiciled either in Spain or in an EU Member State are entitled to register to fly the Spanish flag.

Corporations domiciled in an EU Member State that may apply for registration in Spain are required to appoint a representative in Spain.

When a vessel is registered under another flag, a deletion certificate from the other registry must be produced before final registry in Spain.

**Special Registry**

Notwithstanding the above, application for the Special Registry must comply with the following requirements:

- Shipping companies may register with the Special Registry provided that their effective place of business is situated in the Canary Islands or that they otherwise have a permanent representative there in order to comply with all statutory obligations.
- Shipping companies may apply for the registration of their ships provided that they have a title of ownership or otherwise are entitled to exploit them by virtue of a bareboat charter agreement or any other title.

5.3.2 Ship registration procedure

The application form must be accompanied by several documents relating to the ship details, including:

- For ships constructed in Spain: certified building project and title of ownership
- For imported ships: evidence of the import, deletion certificate from the previous registry, title of ownership or bareboat charter, as applicable

In addition, any liens, passage of title or mortgages on the Spanish-registered vessels must be communicated to the registry.

Spain

5.3.3 Parallel registration

Parallel registration is only possible in the Special Registry.

Bareboat charter registration can be applied for by shipping companies provided that they meet the requirements mentioned in section 5.3.1 and that the owner approves of flying the Spanish flag.

However, parallel registration cannot be extended for a period of time exceeding six months unless the relevant charter agreement exceeds such period and a provisional deletion certificate from the previous registry is duly submitted. Subsequent extensions can be applied for provided that evidence of the relevant provisional deletion certificate can be produced during the same period of time.

5.3.4 Requirements for the officers and crew serving on vessels

Crew on Spanish-registered vessels must get a competence certificate from the Mercantile Marine Authorities.

5.3.5 International conventions regarding registration

Spain has ratified most major international maritime conventions, such as the United Nations Convention on the Law of the Sea of 1982, and joined the International Maritime Organization in 1962.
Spain
Sri Lanka

1. Tax

1.1 Income tax treatment of shipping companies

1.1.1 Corporate income tax

The tax laws generally apply to shipping companies as they do to any other company, and the general rate of corporate income tax is 28%.

Where a nonresident person carries on the business of shipowner or charterer and any ship owned or chartered by said person calls at a port in Sri Lanka, an amount of 6% of the sums receivable on account of the carrying of passengers, mail, livestock and goods shipped in Sri Lanka (other than goods brought to Sri Lanka solely for transshipment) is deemed to be profit therefrom arising in Sri Lanka.

However, if a ship calls on a one-off basis and further calls by that ship are unlikely, the above provision does not apply.

The aforesaid deemed profit is taxed at the normal income tax rate of 28%; however, relief for double taxation is available in relation to treaty partner countries, depending on the respective provisions of the corresponding agreements.

The general rate of income tax applicable to the service sector is proposed to be revised to 15% with effect from 1 April 2016.

1.1.2 Income tax incentives

Ships acquired are eligible for a capital allowance at the rate of 33.33%.

A reduced rate of corporate tax of 12% is applicable to shipping agents on their agency fees, received in foreign currency, attributable to transshipment.

The profits from the performance of any service of ship repair, ship breaking, repair and refurbishment of marine cargo containers for payment in foreign currency are liable to income tax at a concessionary income tax rate of 12%.

The profits from the following activities are exempt from income tax effective from 1 April 2011:

- Operation of any port terminal in Sri Lanka
- Any service provided in the course of any business carried on within such port
- Construction of any port in Sri Lanka

The above exemptions are proposed to be removed with effect from 1 April 2016.

The profits from the supply of any goods manufactured in Sri Lanka or the provision of services to any foreign ship for payment received in foreign currency are deemed to be profit from export and are taxable at the 12% reduced rate.

The profit of any company registered as an offshore company under the Companies Act, No. 7 of 2007 is exempt from income tax when such ship or vessel is engaged in international operations; owned or chartered by such company; deemed to be a Sri Lankan ship by reason of a determination made under paragraph (c) of Section 30 of the Merchant Shipping Act, No. 52 of 1971; other than profits and income arising to such offshore company from the carriage, by that ship, of passengers, mails, livestock and goods, to or from a port in Sri Lanka.

The profit from the provision of skilled development in the shipping industry to trainees by a ship operator or any agent of a ship is liable to income tax at a concessionary income tax rate of 10%.

Tax payable by any ship operator, ship builder or any agent of a foreign ship shall be reduced by 10%, if such ship operator, ship builder or agent provides training or skill development in the shipping industry to trainees.

Profit from the supply of any services prescribed below is liable to income tax at a concessionary rate of 12%:
• Services provided by an agent of a ship operator to such agent's foreign principal in foreign currency
• Services provided by a freight forwarder who is registered with the Central Bank of Sri Lanka as a freight forwarder, for purpose of export of goods

1.1.3 Potential effect of Sri Lanka's double taxation avoidance treaties (DTAs)
Sri Lanka's DTAs may impact the Sri Lankan tax treatment of shipping companies. Sri Lanka has entered into DTAs with a range of countries.

Under the shipping and air transportation article embedded in almost all such agreements, shipping profits are generally taxable in the source state as well, but with a deduction of tax, as much as 50% thereof.

1.2 Economic service charge
An economic service charge (ESC) is chargeable on the aggregate turnover (relevant turnover) of every trade, business, profession or vocation carried on in Sri Lanka. The general rate is 0.25% of turnover. ESC is similar to an advance payment of income tax. However, ESC is not chargeable to any person carrying on business as an owner or charterer of an aircraft or ship.

The current ESC rate is proposed to increase to 0.5% with effect from 1 April 2016.

1.3 Nation Building Tax
The Nation Building Tax (NBT) came into operation effective from 1 February 2009 and is at present chargeable at 2% (from 1 January 2011). The NBT rate is proposed to change from 2% to 4%.

(Implementation for the same is deferred until the relevant law is enacted.)

The following are chargeable to NBT on liable turnover:
• Import of any article into Sri Lanka (other than personal baggage and excepted articles)
• Business of manufacture of any article (other than certain excepted articles)
• Business of providing a service (other than certain excepted services)
• Business of wholesale or retail sale of any article other than such sale by the manufacturer of that article

The importation of aircraft or ship is exempt from NBT (for certain specified Harmonized System (HS) codes). Further, certain services and goods, including the following, are excluded from NBT liability:
• Transport of goods or passengers
• Services of a licensed shipping agent for the export of any article from Sri Lanka
• Any service rendered in or outside Sri Lanka to a person outside Sri Lanka for payment in a foreign currency (if remitted through a bank)
• Any spare parts imported by any shipping company to be used for the maintenance of any ship
• Services provided to the port or airline in relation to international transportation
• Services provided in relation to shipbuilding for the international market for payments made in foreign currency

1.4 Value-added tax
International transportation of goods and passengers, the repair of any foreign ship or any merchant ship registered in Sri Lanka or the refurbishment of marine cargo containers zero rated, and domestic supplies are taxable at 11%.

It has been proposed to introduce three rate bands for value-added tax (VAT) to replace the existing VAT rates. A zero rate will remain for specified services. Manufacturing and import of goods will be liable to VAT at 8%, and provision of services will be liable to VAT at 12.5% as per the budget proposal 2016.

(Implementation for the same is deferred until the relevant law is enacted.)

Certain goods and services are VAT-exempt, including the following:
• The importation of any ship
• Income from chartering vessels
1.5 **Customs duty**
Imported vessels with certain specified HS codes are exempt from import point taxes, including the customs duty and Port and Airport Levy (PAL).

Importation of any ship for the purpose of goods or passenger transportation that will be registered under the Sri Lankan flag is exempt from PAL and duties.

Further, no duty is due for vessels purchased under a Board of Investment-approved scheme.

1.6 **Stamp duty**
Any instrument in respect of the deed of mortgage or lease of any ship registered under the Merchant Shipping Act, No. 52 of 1971 is exempt from the stamp duty.

1.7 **Tax facilities for seafarers**
Remuneration received by any resident individual employed on a Sri Lankan ship is exempt from income tax.

1.8 **Special vessel registration tax benefits for the shipowner**
No special tax benefits are available for ships registered in Sri Lanka.

2. Human capital

2.1 **Formalities for hiring personnel**
Employees (crew members) should be under 45 years of age and should be qualified for their employment.

2.2 **National labor laws**
Under the contract of employment with the shipping company, the national labor laws, including those pertaining to social welfare and workers’ compensation, apply during the course of employment. (The aforementioned provision applies to office employees and crew and is governed by Sri Lankan crew agreements specifying compensation, among other things.)

2.3 **Regulations on employing personnel**
There are no specific regulations or important customs with respect to the employment of personnel.

2.4 **Collective labor agreements**
Collective labor agreements contain a limited term of contract. No information is available relating to, for example, minimum wage, free days and working hours.

2.5 **Treaties relating to social security contributions**
The employer has to contribute to the Employees’ Provident Fund (12%) and to the Employers’ Trust Fund (3%).

2.6 **Manning issues with flying the Sri Lankan flag**
Fifty percent of the crew should be Sri Lankan. (This is not strictly enforced, and the Registrar of Ships may waive this requirement on a case-by-case basis.)

3. Corporate structure

3.1 **Most commonly used legal structures for shipping activities**
No special or specific legal structure is available. The prevailing corporate tax rate for general business is 28%.

However, the Exchange Control Department has imposed certain restrictions on incorporating a company in Sri Lanka by a foreign person for specified business activities as follows:

- The foreign capital of a company is restricted by up to 40% for the following businesses, unless otherwise granted a higher percentage by the Board of Investment:
- Freight forwarders
- Shipping agencies
- If a company is engaged in coastal shipping, permission is required from the Sri Lankan government as to the percentage of foreign shareholding allowed.

The current exchange control law is proposed to be amended by enacting a new Investment Act, which is supposed to relax the existing exchange control regulations.

3.2 Taxation of profit distribution

The dividends distributed to shareholders by any resident company are taxed at 10%.

A resident company will be subject to a deemed dividend tax (15% on the difference between 33.3% of distributable profits of any year of assessment and the total dividend distributed) if the dividend distributed is less than 10% of the company’s distributable profit of the preceding year of assessment.

4. Grants and incentives

No general or specific subsidies or specific investment or environmental incentives are available to the shipping industry. A change in this policy is not expected in the near future.

5. General information

5.1 Infrastructure

5.1.1 Major ports

The major ports are:
- Port of Colombo
- Galle Regional Port
- Kankesanthurai (KKS) Harbour
- Port of Point Pedro
- Trincomalee Harbour
- Ruhunu Magampura International Port
- Oluvil Harbour

5.1.2 Port facilities

The following facilities are available:
- Maintenance and repair
- Docking
- Bonded warehousing
- Cranes for every size of vessel
- Electronic data interchange (EDI) services
- Special facilities (bunkering pollution and oil spill control, marine surveyors)

5.1.3 Support services for the shipping industry

The following support services for the shipping industry are readily available:
- Banks with a shipping desk
- Maritime law services
- Insurance brokers for the shipping industry
- Repair and maintenance services
- Bunker supply services in Colombo, Galle, Trincomalee and Hambantota
• Surveyors of all major classification societies in Colombo
• Salvage services
• Shipping agencies

5.1.4 Maritime education
The University of Moratuwa offers a degree program in navigation and engineering. A number of public and private institutions provide training for ratings and officers of all ranks.

5.2 Safety and environmental issues
5.2.1 Implementation of the International Safety Management Code (and International Ship and Port Facility Security Code) on board vessels
According to the Director General of Merchant Shipping, who is responsible for the safety of ships in Sri Lanka, all Sri Lankan-registered ships that were required under the Safety of Life at Sea requirements (SOLAS, Chapter IX) to comply with the International Safety Management (ISM) Code by 1 July 1998 achieved certification by that date.
About 80% of the shipping companies have implemented the ISM Code. (This is compulsory, and full compliance is required.)

5.2.2 Safety rules regarding manning
Sri Lanka is regarded by the industry as having strict safety rules regarding manning.

5.2.3 Special regulations on safety and the environment
Laws have been enacted to prevent sea pollution and to deal with other environmental concerns.

5.3 Registration
5.3.1 Registration requirements
Fifty percent of the crew members should be Sri Lankan nationals. (Waivers are possible.)

5.3.2 Ship registration procedure
Ownership can be registered with the Registrar of Ships, accompanied by the following documents:
• Original bill of sale
• Class maintenance certificate
• Confirmation of number of shares held in the ship
• Particulars of mortgages
• Certificate in evidence of free and unencumbered ownership
• Certificate of good standing of the buying company
• Board resolution for the purchase of the ship
• Powers of attorney of the persons signing for the purchase and the sale
• De-registration or cancelation letter of the registration in another country

5.3.3 Parallel registration
Parallel registration is possible. For registration under an offshore company with a 50% Sri Lankan crew, wages are exempt from tax, but no business can be conducted in Sri Lanka. (It will be treated like any other foreign shipowner.)

5.3.4 Requirements for the officers and crew serving on vessels
Officers and crew should hold a certificate issued in accordance with the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW) (also, see section 5.3.1).

5.3.5 International conventions regarding registration
The principal legislation governing ship registration is the Merchant Shipping Act No. 52 of 1971. Registration of foreign vessels was allowed under the Companies Act, No. 7 of 2007 (setting up an offshore
company in Sri Lanka) based on international laws.

**International conventions**

Sri Lanka is a member of the International Maritime Organization (IMO) and is on its White List, is also a member of the International Labour Organization (ILO), and has ratified most of its important conventions. Some of them are listed below.

IMO conventions:
- COLREG 1972
- FUND 1971
- INMARSAT, CLS 1969
- ITC 1969
- LOAD LINES 1966
- MARPOL 1973/78
- SOLAS 1974
- STCW 1978/95
- STP 197

ILO conventions:
- C007, Minimum Age (Sea), 1920
- C008, Unemployment Indemnity (Shipwreck), 1920
- C016, Medical Examination of Young Persons (Sea), 1921
- C098, Right to Organise and Collective Bargaining, 1949
- C135, Workers’ Representatives, 1971
- C108, Seafarers’ Identity Documents, 1958

### 5.3.6 Special requirements and rules regarding registration

See section 5.3.2.
1. Tax

1.1 Tax facilities for shipping companies

Shipping companies are generally taxed in the same way as other companies. The corporate income tax rate is 22%. Under certain circumstances, Swedish registered shipping companies can be granted a subsidy for employers' contributions paid on salaries to the seafarers (sjöfartsstöd). Among other requirements, to qualify for the subsidy, the shipping company must make "training employment positions" available according to the directions issued by the Delegation for Swedish Maritime Support, the vessel and its operations must be sufficiently insured, and the vessel and its operations must be exposed to international competition in the shipping market.

1.2 Tax facilities for seafarers

1.2.1 Resident seafarers

As a main rule, resident seafarers who are employed on Swedish vessels are taxed as Swedish residents. However, resident seafarers on board Swedish and European Economic Area (EEA) registered vessels are also entitled to special deductions in their personal income tax returns depending on the vessel's route.

**Swedish and EEA registered vessels in local traffic**

The special income deduction is SEK35,000 (approx. €4,000) per annum. In addition to this deduction, there is a special tax reduction amounting to SEK9,000 (approx. €1,000) per annum.

**Swedish and EEA registered vessels in foreign traffic**

The special income deduction is SEK36,000 (approx. €4,100) per annum. In addition to this deduction, there is a special tax reduction amounting to SEK14,000 (approx. €1,600) per annum.

**Resident seafarers on foreign vessels**

Resident seafarers are not liable for tax in Sweden if the seafarers stay abroad for a period of at least 183 days during a 12-month period and the employer is situated within the EEA.

1.2.2 Nonresident seafarers

Seafarers not resident in Sweden are taxed at a flat rate of 15% on their salaries and benefits derived from work on:

- A Swedish merchant vessel (as defined in the Swedish Sea Act) except when the vessel is rented out mainly unmanned to a foreign shipowner and the seafarer is not employed by the owner of the vessel or an employer engaged by the owner
- A foreign merchant vessel rented mainly unmanned by a Swedish shipowner if the seafarer is employed by the shipowner or an employer engaged by the shipowner

No deductions are allowed in the personal income tax return when a nonresident seafarer is taxed at the 15% flat rate.

It is, however, possible for nonresident seafarers to apply for the same treatment as resident seafarers on income derived from employment on vessels registered within the EEA. By doing so, they become entitled to the special income deduction, as well as the special tax reduction (see section 1.2.1).

1.3 Tax treaties and place of effective management

Sweden has an extensive treaty network with other countries and currently has income tax treaties in force with more than 80 countries. In general, Sweden's tax treaties are based on the Organisation for Economic Co-operation and Development (OECD) model tax convention on income and capital (OECD model tax treaty).

Sweden has concluded tax treaties with the following jurisdictions:
Albania, Argentina, Australia, Austria, Bangladesh, Barbados, Belarus, Belgium, Bolivia, Bosnia and Herzegovina*, Botswana, Brazil, Bulgaria, Canada, Chile, China, Croatia*, Cyprus, Czech Republic**, Denmark, Egypt, Estonia, Faeroe Islands, Finland, France, Gambia, Georgia, Germany, Greece, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Jamaica, Japan, Kazakhstan, Kenya, Korea (South), Kosovo*, Latvia, Lithuania, Luxembourg, Macedonia, Malaysia, Malta, Mauritius, Mexico, Montenegro*, Namibia, Netherlands, New Zealand, Nigeria, Norway, Pakistan, Philippines, Poland, Portugal, Romania, Russian Federation, Serbia*, Singapore, Slovak Republic**, Slovenia*, South Africa, Spain, Sri Lanka, Switzerland, Taiwan, Tanzania, Thailand, Trinidad and Tobago, Tunisia, Turkey, Ukraine, United Kingdom, United States of America, Venezuela, Vietnam, Zambia, and Zimbabwe.

*Sweden applies the treaty with former Yugoslavia to Bosnia-Herzegovina, Croatia, Kosovo, Montenegro, Serbia and Slovenia.

**Sweden applies the treaty with former Czechoslovakia to the Czech Republic and the Slovak Republic.

Moreover, Sweden has also concluded specific tax treaties with the following countries regarding shipping activities to specifically avoid double taxation of companies using ships in international traffic: Guernsey, Isle of Man and Jersey.

According to domestic Swedish rules, a company is considered resident in Sweden if it is registered (incorporated) in Sweden according to Swedish law. A foreign limited liability company is not considered resident in Sweden simply based on the fact that it has a place of effective management in Sweden, but a foreign company with management and control in Sweden is considered to have a permanent establishment in Sweden.

However, most of the Swedish tax treaties are based on the OECD model tax treaty, which means that Article 8 is used to determine the tax treatment of shipping companies. Article 8 states that the profits of a shipping company shall be taxable only in one state, i.e., either where the shipping company is domiciled or in the state in which the place of effective management of the shipping company is situated.

1.4 Freight taxes
There are no freight taxes in Sweden.

1.5 Value-added tax
Supply, repairs, modification, maintenance, chartering and leasing are zero-rated for value-added tax (VAT) purposes (exempt with recovery rights) if related to:

- Commercial seagoing vessels
- Vessels used for deep-sea fishing activities
- Vessels used for professional fishing activities
- Vessels used for pilotage and rescue at sea

The supply of equipment and other parts to be used on board or incorporated in the vessel is in some cases zero-rated (exempt with recovery rights). The exemption is applicable when goods are supplied or rented to the owner of the vessel or to the person with the usufruct of the vessel according to contract with the owner of the vessel. Services (for example, repairs and maintenance) connected to the equipment and other parts incorporated in the vessel are exempt from VAT with no restrictions.

1.6 Special vessel registration tax benefits for the shipowner
Registration of vessels in Sweden does not result in any special tax benefits for the shipowner.

1.7 Tonnage tax
Currently, Sweden does not have a tonnage tax. However, by initiative of the Swedish government, reports have been prepared in order to analyze the potential implementation of a tonnage tax in Sweden. The latest analysis was initiated in January 2013, and was reported in January 2015.

After a proposal was finalized, the government indicated that a tonnage tax system will be introduced in Sweden. The new rules have not been made public yet. It has been suggested, however, that the new rules
2. Human capital

Swedish shipping companies can, under certain circumstances, be granted a subsidy from the Delegation for Swedish Maritime Support on Swedish employers’ contributions paid on salaries to the seafarers (sjöfartsstöd). This subsidy leads to lower manning costs for Swedish shipping companies. One of the conditions to qualify for this subsidy is that the shipping company is registered in Sweden. This also means that local rules and regulations will have to be enforced for vessels as well as personnel.

3. Corporate structure

The most commonly used legal structure is the limited liability company (AB), for which the standard corporate income tax rate is 22%.

4. General information

4.1 Infrastructure

4.1.1 Major ports

Göteborg (located on the west coast of Sweden) is the largest harbor in Scandinavia. The Malmö harbor merged with the Copenhagen harbor in 2001. As a result, the new Copenhagen-Malmö Port Company has harbors on both sides of the Öresund.

The major ports are:
- Brofjorden, Preemraff
- Gävle
- Göteborg
- Helsingborg
- Karlshamn
- Luleå
- Malmö
- Oxelösund
- Stockholm
- Trelleborg

4.1.2 Port facilities

The following port facilities are available:
- Maintenance and repair
- Docking
- Storage
- Cranes for every size of vessel

4.1.3 Support services for the shipping industry

The following support services for the shipping industry are available:
- Banks with a shipping desk
- Consulting firms specializing in shipping
- Maritime law services

will come into effect as of 20 June 2016.
• Insurance brokers for the shipping industry

4.1.4 Maritime education
There are several universities and colleges that provide education in logistics in Sweden. Furthermore, there are several non-academic education programs called KY (qualified professional education) all around Sweden specializing in the maritime industry.

4.2 Safety and environmental issues
The Swedish Maritime Administration is an agency under the Ministry of Enterprise, Employment and Communication. The tasks of the Swedish Maritime Administration are shown in the agency's directives. The agency's main responsibilities lie within the area of safety and environmental issues. These responsibilities are:

• To promote safe, environmentally compatible and efficient shipping within the framework of sector responsibility
• To be responsible for the needs of shipping for infrastructure in the form of sea routes, pilotage, ice-breaking, nautical information, communication and services
• To be responsible for Swedish maritime and sea rescue operations
• To strive for safety on board Swedish vessels independent of fairways
• To monitor competition in the Swedish shipping industry
Taiwan

1. Tax

1.1 Tax facilities for shipping companies
There are no special tax facilities for shipping companies.

1.2 Tax facilities for seafarers
The income of seafarers that is earned within the territory of Taiwan is subject to personal income tax for a certain percentage, but there is no wage cost deduction for seafarers' wages.

1.3 Tax treaties
As of 22 April 2015, there are 28 comprehensive income tax treaties and 12 international transportation income tax agreements, which have been signed and brought into force. All tax treaties are listed below.

Comprehensive income tax treaties that cover all income flows have been concluded with the following jurisdictions: Australia, Austria, Belgium, China (mainland), Denmark, France, Gambia, Germany, Hungary, India, Indonesia, Israel, Kiribati, Luxembourg, Macedonia, Malaysia, The Netherlands, New Zealand, Paraguay, Senegal, Slovakia, Singapore, South Africa, Swaziland, Sweden, Switzerland, Thailand, United Kingdom and Vietnam.

International transportation income tax agreements have been concluded with Canada, the European Union, Germany, Japan, Korea (South), Luxembourg, Macau, The Netherlands (shipping, air transport), Norway, Sweden, Thailand and the United States.

1.4 Tax exemption on cross-strait sea and air transport
According to Article 29-1 of the Act Governing the Relations between the People of the Taiwan Area and the Mainland China Area (the Act), marine and air transportation service providers in the Taiwan Area and the Mainland Area receiving income from sources in the other party for their participation in cross-strait shipping and/or air transportation may, in accordance with the agreement between the Taiwan Area and the Mainland Area established under Article 4-2 of the Act, grant mutual privileges by reducing or exempting business tax and income tax based on the principle of reciprocity.

1.5 Freight taxes
According to Article 4 of the Income Tax Act, income earned by a foreign company from operation of international transportation services in the territory of Taiwan would be exempt from Taiwan corporate income tax provided that the foreign company's home country provides reciprocal treatment to Taiwanese companies engaging in international transport services.

1.6 Special vessel registration tax benefits for the shipowner
There are no tax benefits for vessels registered in Taiwan.

1.7 Changes to tax law anticipated in the near future
No significant changes to tax law are anticipated in the near future.

2. Human capital

2.1 Formalities for hiring personnel
According to Articles 12 and 25-1 of the Seafarer Act, when employing a seafarer, the employer must sign a written employment contract with the seafarer. The seafarer employed must not work on board a ship until the contract is sent to the competent authority for future reference. The same applies when the contract is terminated. An employer hiring a seafarer who is a nonresident of Taiwan must apply to the competent authority for permission.
2.2 The Seafarer Act
The Seafarer Act applies to seafarers on ships. However, the Seafarer Act does not apply to seafarers serving on the following ships, provided that they are not involved with navigation safety and dealing with maritime casualties:

- Military vessels and boats
- Vessels and boats of the Coast Guard Authority
- Fishing ships

In addition, the Seafarer Act does not apply to seafarers serving on a ship exclusively for governmental services, except with regard to the following matters: qualifications, practice, cultivation and training and when dealing with navigation safety and maritime casualties.

2.3 Regulations on employing personnel
All seafarers must be age 16 or over. All masters must be nationals of Taiwan. The qualifications of seafarers must be in conformity with the provisions of the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW), 1978, and any amendments thereto. Seafarers must also pass the seafarer examination or have verification of having obtained seafarer training. Any person who possesses the above qualifications is permitted to take up employment as a seafarer only after the issuing of a competence certificate from the Ministry of Transportation and Communication (MOTC). Seafarers are entitled to serve aboard a ship after passing a medical fitness examination and on the condition that they possess a seafarer’s service book in accordance with relevant regulations.

2.4 Collective labor agreements
The National Chinese Seamen’s Union (NCSU) is credited for promoting the signing of the International Transport Workers’ Federation-National Chinese Seamen's Union Total Crew Cost (ITF-NCSU TCC) collective agreement with shipping companies. The collective labor agreement contains the following conditions:

1. A contract term is nine (plus or minus one) months.
2. Free days: apart from national holidays, seafarers will take at least one day off every seven days except if they are required to take turns in watchkeeping during navigation.
3. Essentials of the discharge law include: retirement, a completed contract or a document stating that the seafarer is “unfit to work on board;” or due to an accidental injury as documented by a doctor.
4. Regular working hours: a normal total working week for seafarers consists of 44 hours, except if they are required to take turns in watchkeeping because of navigation needs.
5. National health insurance is only available for seafarers of Taiwanese-flagged vessels; in addition, the employer and seafarers will contribute to the retirement fund on a monthly basis, which contribution shall be deposited in a specific account.
6. The minimum standards of seafarer wages, onshore pay and overtime charges, which vary for different ranks of crew members, will be provided by the MOTC; the minimum wage will not be less than the wages provided by the basic work criteria of the Labor Standard Law.

2.5 Treaties relating to social security contributions
Social security for seafarers is included in the ITF-NCSU TCC collective agreement and the Standard Fixed-Term Employment Contract for Seafarers drawn up by the MOTC.

2.6 Manning issues with flying the Taiwanese flag
One manning issue regarding flying the Taiwanese flag is that the International Maritime Organization (IMO) White List does not yet include Taiwan. However, Taiwan obtained the STCW Statement of Compliance, Independent Evaluation of Taiwan, on 12 February 2004, after passing the evaluation of STCW Competent Persons recognized by the IMO. This means that Taiwanese certificates will enjoy the same treatment as those issued by other White List territories.
3. Corporate structure

3.1 Most commonly used legal structure for shipping activities
The most commonly used legal structure is the company limited by shares. In general, the taxable income of shipping companies using this structure is subject to corporate income tax (CIT) at a rate of 17% based on accounting income with adjustments made pursuant to tax codes. However, under the tonnage tax system, taxes will be levied based on net tonnage of the company’s Taiwanese-flagged ships.

With preapproval from the tax authority, companies headquartered outside of Taiwan providing shipping services within the territory of Taiwan are allowed to use a 10% deemed-profit method to calculate their tax payable according to Article 25 of the Income Tax Act.

Companies engaging in international transportation services are subject to 0% value-added tax (VAT). But a foreign company engaging in the same services would only be allowed 0% VAT if its home country provides a reciprocal arrangement to Taiwanese companies.

3.2 Tonnage tax (Article 24-4 under the Income Tax Act)
The Taiwanese government approved a provision within the income tax law that entered into force in FY 2011, allowing shipping companies engaged in international maritime transportation to change the basis of their taxation. The provision allows profit-seeking enterprises headquartered in Taiwan (Taiwanese companies), with permission from the competent authority, to re-base the taxation of their marine transport income from the current applicable corporate income tax to a lump-sum tax calculated on the tonnage of their fleet. The tonnage tax is divided into four brackets as follows:

1. For ships with a net tonnage of 1,000 tons or less, assumed profit is fixed at TWD67 per 100 tons up to 1,000 tons per day.
2. For ships with a net tonnage of 1,001 to 10,000 tons, daily assumed profit per 100 tons between 1,000 and 10,000 tons is TWD49.
3. For ships of 10,000 to 25,000 tons, daily assumed profit per 100 tons between 10,000 and 25,000 tons is TWD32.
4. For ships over 25,000 tons, daily assumed profit per 100 tons above 25,000 tons is TWD14.

Shipping companies that qualify for the tonnage tax may choose between the regular CIT approach and the tonnage tax approach. Once the choice is made, however, it is binding for 10 years. In addition, shipping firms that choose to enter the tonnage tax regime are not eligible to apply offsetting between profits and losses or other tax incentives.

3.3 Taxation of profit distribution
Profit distributions (dividends) to nonresident shareholders from shipping companies in the legal form of companies limited by shares and limited liability companies are subject to withholding tax at the general rate of 20%, which can be reduced through treaty protection.

4. Grants and incentives

4.1 Specific and/or general subsidies available to shipping companies
Subsidies may be granted to qualified transportation companies engaged in air transportation between Taiwan and offshore islands in the territory of Taiwan.

4.2 Investment incentives for shipping companies and the shipbuilding industry
There are no special investment incentives for shipping companies and the shipbuilding industry.

4.3 Issues with flying the Taiwanese flag (Article 5 of The Law of Ships)
According to the Law of the Ships, a ship may apply for registration as a Taiwanese-flagged ship under any one of the following conditions:
• The ship is owned by the Taiwanese government.
• The ship is owned by a Taiwanese national.
• The ship is owned by any of the following companies, which are established under Taiwanese laws, with principal offices situated within Taiwanese territory:
  - An unlimited company, of which all shareholders are Taiwanese nationals
  - A limited company, of which at least half of the capital is owned by Taiwanese nationals, and the director authorized to represent such company is a Taiwanese national
  - A joint company, of which all shareholders with unlimited liabilities are Taiwanese nationals
  - A company limited by shares, of which the chairman of the board and at least half of the directors are Taiwanese nationals, and at least half of the capital is owned by Taiwanese nationals
• The ship is owned by a juridical corporate, which is established under the Taiwanese laws, with its main office situated within the Taiwanese territory and at least two-thirds of the members and the statutory representative being Taiwanese nationals.

Any foreign-flagged ship will not fly a Taiwanese flag, except as otherwise stipulated in laws or under any one of the following circumstances:
• On the National Day or any memorial day of Taiwan
• When celebration or salute is needed

4.4 Major changes in shipping subsidy legislation anticipated in the near future
No major changes are anticipated in the near future.

5. General information

5.1 Infrastructure

5.1.1 Major ports
The major ports are:
• Anping
• Hualien
• Kaohsiung
• Keelung
• Suao
• Taichung
• Taipei

5.1.2 Port facilities
The following facilities are available:
• Maintenance and repair
• Docking
• Storage
• Cranes for every size of vessel
• Pilotage and towage
• Navigation aids, such as lights and buoys
• Moorings and anchorages
• Shipbuilding
• Monitoring of maritime activities and traffic service for ocean cruisers
• Inspection service

5.1.3 Support services for the shipping industry
The following support services for the shipping industry are readily available:

- Banks with a shipping desk
- Consulting firms specializing in shipping
- Maritime law services
- Insurance brokers for the shipping industry

5.1.4 Marine education

Two types of maritime education exist in Taiwan: higher maritime education and vocational maritime education.

Higher maritime education is provided by three major institutions:

- Taipei College of Maritime Technology (Taipei)
- National Kaohsiung Marine University (Kaohsiung)
- National Taiwan Ocean University (Keelung)

Vocational maritime education is mainly provided at the high school level by the following schools:

- China Commercial Maritime Vocational Senior High School (Taipei)
- National Keelung Maritime Vocational High School (Keelung)
- National Penghu Marine and Fishery Vocational High School (Penghu)
- National Suao Marine & Fisheries Vocational High School (Suao)
- National Tainan Senior Marine Fishery Vocational School (Tainan)
- National Tung Kang Maritime and Fishery Vocational High School (Pingtung)

5.2 Safety and environmental issues

5.2.1 Implementation of the International Safety Management Code on board vessels

All international ships that have implemented the International Safety Management (ISM) Code and obtained the safety management certificate (SMC) and document of compliance (DOC) must follow those regulations accordingly.

5.2.2 Safety rules regarding manning

The ISM Code, STCW 95, the International Labour Organization (ILO) requirements, ITF requirements and crew employment contracts will be strictly verified. In addition, a Minimal Safe Manning Certificate should be obtained, which can be issued under the provisions of regulation V/14.2 of the International Convention for the Safety of Life At Sea, 1974, as amended.

To ensure safety of the ship and navigation, the employer will man the ship with sufficient qualified seafarers in accordance with relevant provisions before and at the beginning of the voyage. The minimum standards for the safe manning of a ship according to a ship's trading area(s), type and size will be provided by the MOTC.

5.2.3 Safety rules regarding security

The MOTC has adopted the International Ship and Port Facility Security (ISPS) Code, requiring the inspection and approval of the China Corporation Register of Shipping on ship security and port facilities.

5.2.4 Special regulations on safety and the environment

The Regulations for the Administration of the Prevention of Pollution of the Sea have been set up based on the International Convention for the Prevention of Pollution from Ships (MARPOL 73/78) and its amendment, MEPC.117 (52).

The International Convention on the Control of Harmful Anti-Fouling Systems on Ships (AFS convention) prohibits the use of harmful organotin compounds in anti-fouling paints used on ships and establishes a mechanism to prevent the potential future use of other harmful substances in anti-fouling systems.

5.3 Registration (The Shipping Registration Law)

The Shipping Administration Authority of the port of registry shall undertake to administrate the registration
of a ship; however, the Shipping Administration Authority at the port of construction is the competent authority in charge of the registration of mortgage of the ship during construction.

5.3.1 Registration requirements
For any registration application, the following documents are required:

1. Application form
2. Documents evidencing the cause of registration
3. Registration of certificate of former registration, if any
4. Documentary proof, if the cause of registration involves any third person
5. Documentary proof of registration as to the right of the obligor

The documents listed in items four and five above may be exempted if the causes of registration appearing in such documents are court decisions with the power of enforcement.

The following information shall be enumerated in the application form, and the form must be signed by the applicant:

- Type, name and tonnage of ship
- Port of registry
- Cause and date of registration
- Purpose of registration
- The number of documents certifying the causes of registration
- Amount of registration fees
- The authority to which the registration is made
- Date of application
- Name, domicile of origin, address, residence and occupation of the applicant, or, in case of a juridical person as the applicant, the name and office of such person
- Name, domicile of origin, address and residence of the ship managing person, if any
- Name, domicile of origin, address, residence and occupation of the proxy making the application, if any

When more than one person is entitled to a registration as the obligee, which part belongs to which person must be noted in the application form.

5.3.2 Ship registration procedure
The registration must be made jointly by the obligee and obligor entitled to the registration or by proxy or proxies through an application to the competent authority. Any proxy making an application must present the letter of authorization signed personally by the person delegating the authorization. If a number of ships are registered at the same time with the same cause and purpose, the application may be made on one single form.

The competent authority will issue certificates to applicants upon completing registrations. The following entries and the words marking the completion of registration must be recorded in the Registration Certificate, to which the official seal of the competent authority will be affixed:

1. Name, address and residence of applicant
2. Registration number
3. Date and number of receipt of application
4. Specifications of the ship
5. Port of registry
6. Cause of registration and the date of occurrence thereof
7. Purpose of registration
8. The number of the column of order of rights
9. Date of registration
If an application is made by the obligee only, the competent authority must notify the obligor in this regard with the Notice of Registration.

5.3.3 Special requirements and rules relating to registration

There are some more detailed rules for specific circumstances regarding ship registration. More information can be found in the Shipping Registration Law.

5.4 Consulted resources

- Act Governing Relations between the People of the Taiwan Area and the Mainland Area, Ministry of Justice of Taiwan website, law.moj.gov.tw/Eng/LawClass, accessed 22 April 2015.
- The Seafarer Act, Ministry of Justice of Taiwan website, law.moj.gov.tw/Eng/LawClass, accessed 22 April 2015.
- The Ship Registration Law, Ministry of Justice of Taiwan website, law.moj.gov.tw/Eng/LawClass, accessed 22 April 2015.
Thailand

1. Tax

1.1 Tax facilities for shipping companies

Corporate income tax

A foreign company or partnership carrying on international maritime transportation is subject to corporate income tax (CIT) at a rate of 3% of the freight, fees and any other benefits collectible, whether in Thailand or elsewhere, for the transport of goods from Thailand, before deduction of any expenses. Thai companies are subject to CIT at a rate of 20% on net profit. The 20% rate is expected to be permanent, beginning with the accounting periods commencing on or after 1 January 2016, but the law is still in the legislative process.

Withholding tax

The inbound freight paid to a Thai shipping company is subject to a 1% withholding tax, while the payment made to an overseas shipping company is tax-exempt.

The outbound freight is subject to a 1% withholding tax.

Value added tax

International transportation service of sea vessels engaged by juristic persons is subject to 0% value-added tax (VAT).

1.2 Tax facilities for seafarers

There are no special tax facilities for seafarers apart from the fact that income in the form of salary or wages received by seafarers for the discharge of their duties on board a Thai ship, under the law governing the merchant navy in the international carriage of goods, is exempt from Thai personal income tax.

1.3 Tax treaties and place of effective management

Thailand has concluded agreements for the avoidance of double taxation with 57 jurisdictions, which reduce the transportation tax rate for international shipping income to 1.5% as follows:

Armenia, Australia, Austria, Bahrain, Bangladesh, Belgium, Bulgaria, Canada, Chile, China, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hong Kong SAR, Hungary, India, Indonesia, Ireland, Israel, Italy, Japan, Korea (South), Kuwait, Laos, Luxembourg, Malaysia, Mauritius, Myanmar, Nepal, Netherlands, New Zealand, Norway, Oman, Pakistan, Philippines, Romania, Russian Federation, Seychelles, Singapore, Slovenia, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Taiwan, Tajikistan, Turkey, Ukraine, United Arab Emirates, United States of America, Uzbekistan and Vietnam.

Thailand has also concluded treaties with Poland and the United Kingdom, but they exclude shipping income, and Belarus, which does not provide tax rate reduction.

1.4 Freight taxes

There are no specific freight taxes in Thailand. For relevant taxes applicable in Thailand, please refer to section 1.1.

1.5 Special vessel registration tax benefits for the shipowner

Thai company income from international maritime transportation may be exempt from Thai CIT if the vessel used for business is registered as a Thai vessel and at least 50% of the crew are Thai nationals.

Moreover, tax exemption is provided on the proceeds of the sale of a vessel used for international sea transportation by a company or a partnership incorporated under Thai law that operates an international transportation business, provided that the criteria are met. Below is a summary of criteria:

- The sale of a vessel must be for the purpose of procuring a new vessel in replacement of the sold vessel, either by purchasing a new vessel or building a new vessel.
• In the case of purchasing a new vessel:
  - It must be acquired and registered as a Thai vessel within one year before the sale date of the old vessel but no later than two years of the sale date of the old vessel.
  - The new vessel must have been in operation no longer than the old one.
  - The new vessel must have deadweight tonnage greater than the old vessel.
• In the case of building a new vessel, it must be registered as a Thai vessel within two years of the sale date of the old vessel; the shipowner must notify the Director-General of the Revenue Department in writing to obtain tax exemption.
• The owner must inform the Director-General of the Revenue Department in writing of the sale of the old vessel and the purchase or the building of the new vessel as follows:
  - In the case of purchasing a new vessel before selling the old one, the owner must inform the Director-General of the sale within 30 days of the sale date.
  - In the case of purchasing or building a new vessel after selling the old one, the owner must inform the Director-General of the purchase within 30 days of the date that the vessel is registered as a Thai ship or 30 days from the ownership transfer date if such vessel was already registered as a Thai ship.

1.6 Changes to tax law anticipated in the near future
Thailand has officially imposed a VAT on the sale of goods and provision of services and import of goods at the rate of 10%. However, the government temporarily reduced the VAT rate to 7%, and the temporary reduction has subsequently been extended until 30 September 2016. If there is no further extension, the 10% rate (which consists of 9% VAT and 1% municipal tax) will be applicable from 1 October 2016 onward.
Furthermore, the CIT rate at 20% has been approved by the cabinet to be the permanent rate, starting from the accounting periods commencing on or after 1 January 2016, but the law is still in the legislative process. Personal income tax (PIT) reduced rates have also been approved by the government to be maintained until the end of 2016.

2. Human capital

2.1 Formalities for hiring personnel
Under Thai labor laws, hiring personnel in Thailand is done by mutual agreement between employer and employee in the form of either a written or oral agreement.

In Thailand, there are rules and requirements relating to the use of labor in the scope of employment conditions and working conditions, e.g., wages, working hours, days off and a safe working environment. They are applicable to crew members, who are protected under Thai labor laws irrespective of whether they have a written or verbal employment contract.

An employer with 10 or more employees must provide a copy of the work rules in Thai and must announce the date of their enforcement within 15 days after hiring these 10 or more employees.

2.2 National labor laws
The most significant labor laws are the following:
  • Labor Protection Act B.E. 2541 (1998)
  • Labor Relations Act B.E. 2518 (1975)

2.3 Regulations on employing personnel
Under the Labor Protection Act B.E. 2541 (1998), employment is generally regulated as follows:
  • Minimum wages; currently, the rate is THB300 (€7.5) per day for employees working in all provinces throughout Thailand.
  • Normal working hours may not exceed 8 hours a day and 48 hours a week.
  • Overtime payment may not be less than 1.5 times the normal hourly rate on weekdays and 3.0 times the
hourly rate on holidays.

- Minimum annual leave is 6 days of vacation leave and 30 days of sick leave.
- Traditional holidays, including National Labor Day, must not number less than 13 days per year, including annual official holidays, religious holidays and local traditional holidays.


- The Social Security Fund compensates for injury, sickness, disability, death, childbirth, child welfare and old age.
- Contributions are due from three parties – employer, employee and government – at the same rate on a monthly basis.
- The contribution rate is 5% of the basic salary per month, with a maximum salary base of THB15,000 (€375).

Under the Workmen's Compensation Act B.E. 2537 (1994):

- The Workmen's Compensation Fund compensates for injury, sickness, disability and death in the line of duty.
- Contributions are due from the employer on an annual basis.
- The contribution rate varies from 0.2% to 1% of wages based on the risk rating of the establishment type as set by industrial classification. The current rate applies to the employees in the shipping industry and stands at 1% of the basic salary per month, with a maximum salary base of THB20,000 (€500).

Under the Skill Development Act B.E. 2545 (2002):

- As of 2005, businesses prescribed by law, including shipping businesses that operate with 100 employees or more, have been required to make contributions to the fund, except for when they provide skill development programs to their employees in compliance with the law.
- Contributions are due from the employer on an annual basis.
- The contribution rate is 1% of wages per employee per month, with a maximum salary base of THB9,000 per month (€225).

2.4 Collective labor agreements

The collective labor agreements include the following:

- An unlimited term of contract
- Minimum wages as announced by the Ministry of Labor (THB300 per day in all provinces of Thailand); severance pay on termination of employment ranging from 30 to 300 days, based on the period of service
- Leave, at least 6 days a year, with 13 official public holidays
- The Thai Labor Act sets out a number of offenses, with fines of THB5,000 (€125) to THB200,000 (€5,000) and a term of imprisonment of one month to one year
- Normal working hours may not exceed 8 hours a day, and the total hours worked in 1 week may not exceed 48 hours

According to the enforcement of the Maritime Labor Convention 2006 (MLC), Thailand issued the Maritime Labor Act B.E. 2558 (2015) (the Act) to be in agreement with the MLC in October 2015. Effective as of 5 April 2016, the Act includes the following provisions:

- Employment between shipowner and a seafarer under the Act shall not be subject to the Labor Protection Act, Occupational Safety, Health and Environment Act, Social Security Act and Workmen's Compensation Act. The shipowner must provide social security fund, compensation and other benefits to seafarers as prescribed by the Minister of Labor's regulations.
- Persons under the age of 16 years are prohibited from working on board a ship.
- The minimum annual leave is 30 days per year.
- Breaches of the law are subject to a maximum prison sentence of two years, while the maximum fine is THB400,000 (€10,000).
The Ministry of Labor is expediting the process to introduce the relevant regulations to support the Act. In the meantime, the Ministry of Labor has issued a notification regarding the maritime labor standard as a special regulation for maritime labor protection during the legislative process of the Maritime Labor Act.

2.5 Treaties relating to social security contributions
There are no treaties in place, but Thailand is a member of the International Social Security Association (ISSA).

2.6 Manning issues with flying the Thai flag
To fly the Thai flag, a shipowner has to comply with the regulations of the Thai Social Security and Workmen’s Compensation Funds to protect his or her employees.

3. Corporate structure

3.1 Most commonly used legal structure for shipping activities
In Thailand, a branch of a foreign company is the most commonly used legal structure for the shipping business. The reason is that a branch of a foreign company is subject to CIT at 3% on gross revenue, while a company incorporated in Thailand is subject to CIT at the rate of 20% on net profit, with a further 10% withholding tax on dividends distributed to shareholders. The rate of 20% on net profit is expected to be permanent but is still in the legislative process.

3.2 Taxation of profit distribution
Thai individuals and Thai companies are exempt from the 10% withholding tax, provided that such dividends are paid by a Thai company that carries on an international maritime transportation business by using Thai ships on which at least 50% of the crew members are Thai nationals (see section 5.3.1).

No withholding tax applies to profits distributed by a Thai branch to a head office overseas, since foreign shipping companies do not pay income tax on net profit.

4. Grants and incentives

4.1 Specific and/or general subsidies available to shipping companies
There are no subsidies available to shipping companies in Thailand.

4.2 Investment incentives for shipping companies and the shipbuilding industry
The Board of Investment has launched the new investment promotion policy, which is effective on 1 January 2015. According to the new policy, the zone system is abolished. Alternatively, it promotes clusters to create investment concentration in relation to regional potential. The incentives are activity and merit based.

Maritime transport services are eligible for investment incentives from the Board of Investment, including exemption from import duties on machinery and CIT for eight years with a cap at 100% of investment capital, provided that the business is approved by relevant authorities.

For the shipbuilding industry, ships that are built or repaired that weigh not less than 500 gross tons and ships of less than 500 gross tons that are made of steel or fiberglass with installed engines and equipment are eligible for investment incentives, provided that the project is qualified under the ISO 14001 standard within two years from the operation start-up date. The investment incentives include an exemption from import duties on machinery and raw materials and an exemption from CIT for eight years with a cap at 100% of investment capital.

In addition, shipping companies and the shipbuilding industry may be granted additional incentives (merit-based incentives), provided that the business complies with the regulations relating to competitiveness enhancement, decentralization and industrial area development policy.
4.3 Special incentives for environmental awareness
There are no special incentives.

4.4 Issues with flying the Thai flag
The incentives provided by the Board of Investment relate to flying the Thai flag.

4.5 Major changes in shipping subsidy legislation anticipated in the near future
There are no major changes in shipping subsidy legislation anticipated in the near future.

5. General information

5.1 Infrastructure

5.1.1 Major ports
The major ports are:
- Laem Chabang (Chonburi, www.laemchabangport.com)
- Map Ta Phut (Rayong, www.maptaphutport.com)
- Phuket
- Bangkok Port (www.bkp.port.co.th)
- Songkhla
- Sriracha (Chonburi, www.srirachaport.com)
- Kerry Siam Seaport (Chonburi, www.kerryllogistics.com/)

5.1.2 Port facilities
The following facilities are generally available at the ports:
- Maintenance and repair
- Docking
- Storage
- Cranes for every size of vessel
- Loading
- General, bulk and coal cargos
- Radio pratique and sanitary inspection
- Water supply and bunker
- Tankers berthing
- Ship chandlers

5.1.3 Support services for the shipping industry
The following support services for the shipping industry are readily available:
- Consulting firms in shipping (Office of Maritime Consultants Co., Ltd)

5.1.4 Maritime education
In Thailand, there are schools and institutions offering maritime educational programs, including:
- Barter International Maritime Studies, located in Bangkok (www.bimsmaritime.com)
- International Maritime College, Kasetsart University, Sriracha Campus, located in Chonburi (www.imc.src.ku.ac.th)
5.2 Safety and environmental issues

5.2.1 Implementation of the International Safety Management Code on board vessels
The International Safety Management (ISM) Code has been implemented on all vessels of 500 gross tons and more since 1 July 2002.

5.2.2 Safety rules regarding manning
Thailand has adopted the International Ship and Port Facility and Security (ISPS) code and the Declaration of Security (DOS).

5.2.3 Special regulations on safety and the environment
Thailand adheres to the International Convention for the Safety of Life at Sea (SOLAS) 1974, which is incorporated in Thai ship navigation law.

5.3 Registration

5.3.1 Registration requirements
For the purpose of trading in Thai territorial waters, the owners of registered Thai vessels must be Thai nationals or juristic persons established under Thai law. In addition, such juristic persons have to meet the following criteria:

- If it is an ordinary partnership, all partners must be Thai nationals.
- If it is a limited partnership, all partners whose liability is unlimited must be Thai nationals, and not less than 70% of the capital of the partnership must belong to Thai nationals.
- If it is a limited company, the majority of the directors must be Thai nationals, and not less than 70% of the capital must belong to Thai nationals.

For a registered Thai vessel used only to operate international marine transport and not to conduct business in Thai territorial waters, the owner must be a limited company or public limited company under Thai law with its head office in Thailand. The majority of the directors must be Thai nationals, and not less than 51% of the capital must belong to Thai nationals. The ratio of Thai crew on Thai vessels must not be less than 50% as prescribed by ministerial regulation.

5.3.2 Ship registration procedure
The application should be accompanied by the title deed of the vessel (i.e., the shipbuilding agreement, the sale agreement and related supporting documents) and should be submitted to the Marine Department.

The vessel/ship for which an application has been submitted must be surveyed by the officer of the Marine Department for certification.

A ship certificate will be issued by the Marine Department.

5.3.3 Parallel registration
For bareboat charter use in Thai territory, approval from the Thai authorities is required.

5.3.4 Requirements for the officers and crew serving on vessels
The officers and crew working on Thai ships of at least 60 gross tons must be registered in the ship register by the employer and report to the Marine Department on an annual basis. Non-Thai ships are not required by law to register officers and crew with the Marine Department.

5.3.5 International conventions regarding registration
No conventions regarding registration have been adopted.
5.3.6 Special requirements/rules regarding registration

Ship mortgages

The mortgage of Thai ships must be registered with the Marine Department for a fee not exceeding THB20,000 (€500).

Survey

Thai ships are required to be surveyed once a year by the Ship Registration Division of the Marine Department.
Turkey

1. Tax

1.1 Tax facilities for shipping companies

Shipping companies are basically taxed according to the same general principles that apply to other Turkish companies operating in different sectors. However, the taxation may vary with the type of shipping registry.

In Turkey, there are two shipping registries: the National Shipping Registry (NSR) and the Turkish International Shipping Registry (TISR, also called the second registry). All commercial vessels of 18 gross tons or more must be registered in the NSR in order to operate in Turkish territory. However, the TISR, which is optional, provides various advantages to shipping companies. For example, a shipping company registered in the TISR is not subject to the standard corporate income tax of 20%.

1.1.1 Shipping companies not registered in the TISR — standard corporate income tax legislation

According to the Corporation Tax Law, there are two sorts of corporate tax liability: full and limited.

Fully liable taxpayer (resident taxpayer)

Legal entities whose legal or business headquarters are located in Turkey, or whose operations are centered and managed in Turkey, are subject to corporate tax on their worldwide income. Turkish tax legislation describes these companies as fully liable taxpayers.

Limited liability taxpayer (nonresident taxpayer)

Limited liability taxpayers include branch offices whose legal head office or legal center is located abroad. These are subject to corporate tax on their income generated within Turkey only. In other words, worldwide income is taxed in Turkey if the legal or business center is in Turkey. If both the legal and business centers are not in Turkey, the company is qualified as nonresident and is taxed only on the income generated in Turkey.

Corporate tax rate

The corporate income tax rate is 20%.

Withholding tax rate

The local dividend withholding tax rate is 15%. However, the rate may be reduced by available bilateral tax treaty provisions. In order to apply the lower withholding tax rate stipulated by the treaty, dividends should be distributed either actually or on an account basis. The benefit provided by the tax treaty will vary based on the ratio of the foreign shareholding, the maximum withholding tax rate specified by the treaty and the amount of dividend distributed.

Special taxation of nonresident foreign transportation companies

According to Corporation Tax Law No. 5520, foreign transportation companies are taxed under the scope of limited taxation liability. The earnings of foreign transportation companies constituting the tax basis are calculated by applying the average equivalent ratios, which is 15% for marine transportation, on the revenue. These companies will be taxed at a rate of 20% on 15% of their revenues.

The revenues of foreign transportation companies consist of all amounts received as passenger, freight and luggage fees, including payments for expenses that companies charge along with the ticket price, in marine transportation, from the loading ports in Turkey to the destination ports in foreign countries or to the foreign ports where transfers are to be made.

1.1.2 Shipping companies registered in the TISR

The TISR legislation was introduced in December 1999, and an accompanying directive was enacted in June 2000.

The main objective of the TISR, which is regulated according to Turkish International Maritime Law, is to
accelerate the development of the Turkish maritime industry and to increase its contribution to the economy by facilitating the management of the ships registered in the TISR.

The scope of the law encompasses all types of cargo, passenger and open sea fishing vessels operating for commercial purposes and commercial yachts, which are registered with tourism companies and the number of those yachts does not exceed 36. Those vessels that are registered in the TISR benefit from the right to fly the Turkish flag.

According to Article 12 of the TISR Law, ships and yachts shall benefit from the following tax advantages by being registered in the TISR:

- Revenues obtained from the operation and the transfer of ships and yachts (excluding private yachts) are exempt from income tax and corporate tax.
- The purchase, sale, mortgage, registration, loan and freight contracts for ships and yachts are not subject to stamp duty, charges and banking transactions tax.
- Wages paid to the staff employed on ships and yachts (excluding private yachts) are exempt from income tax.

Ships and yachts may be insured abroad as well.

**Leasing of the ships**

The scope of the corporate tax exemption is determined by the Corporation Tax Law General Communiqué No. 1. According to this communiqué, the revenues derived from the lease of a ship registered in the TISR are not within the scope of ship operation. These revenues are therefore not exempt from corporate tax.

**1.1.3 Value-added tax**

According to value-added tax (VAT) law, the following transactions are exempt from VAT, and the taxpayer has the right to claim a credit or refund for the VAT incurred to render the following services:

- Supply of vessels, floating plants and crafts manufactured for leasing or operating purposes; deliveries and services provided in relation to the manufacturing and construction of such means; and services related to maintenance and repair of such vessels to taxpayers whose activities partly or entirely consist of leasing or operating these various types of vessels
- Services supplied in harbors for vessels, including loading, unloading and similar services rendered for loads and passengers
- Services rendered to taxpayers who either actually perform or purchase services regarding construction, renovation and enlargement of harbors, delivery of goods and contracted business done, therefore, in relation to such operations

**1.1.4 Special consumption tax**

According to the Special Consumption Tax Application General Communiqué related List No. (1) , provided that the quantity of fuel is determined according to the ship’s technical properties and entered in the logbook of the ship that will use the fuel, the rate of the consumption tax on the fuel used for any kind of load, including passengers or service (such as towboats, scientific research ships and salvage ships) and open sea fishing vessels and commercial yachts registered in the TISR and NSR and restricted to cabotage, will be reduced to zero.

Thus, the fuel supplied to vessels operating in cabotage and satisfying the conditions mentioned in the general communiqué is exempt from special consumption tax.

**1.1.5 Motor vehicle tax**

The subject of the tax is the motor vehicle. Taxpayers are real and legal persons who have motor vehicles registered to their own names in the traffic register.

With the amendment introduced under the Code no. 5897, which has been published in the *Official Gazette* dated 16 May 2009, yachts, cruisers and all kinds of private motor boats in the tariff no. 3 included in Article 6 of the Motor Vehicles Tax Code are excluded from the scope of motor vehicle tax as of 30 June 2009.
1.2 Tax facilities for seafarers
The wages of seafarers working on ships and yachts registered in the TISR are exempt from income tax and funds according to Article 12 of the TISR Law. The crew of private yachts and the employees and executives working in the offices of shipping companies are not within the scope of this exemption. They are subject to income tax.

According to Article 10 of the TISR Law, the seafarers working on ships and yachts registered in the TISR are subject to the Turkish social security system. However, foreign seafarers can be exempt from disability, old age and death insurance upon their application, provided that they prove to be insured in their own country or in another country. While crew members are subject to Sea Labor Law, other personnel working in shipping companies are subject to Labor Law.

1.3 Tax treaties
Turkey has signed double taxation agreements with 84 countries and, thus, has an extensive network of tax treaties that in many cases effectively reduces the rates enacted in domestic legislation. The list below contains those countries that have concluded double tax treaties (DTTs) with Turkey:
Albania, Algeria, Australia, Austria, Azerbaijan, Bahrain, Bangladesh, Belarus, Belgium, Bosnia and Herzegovina, Brazil, Bulgaria, Canada, China, Croatia, Czech Republic, Denmark, Egypt, Estonia, Ethiopia, Finland, France, Georgia, Germany, Greece, Hungary, India, Indonesia, Iran, Ireland, Israel, Italy, Japan, Jordan, Kazakhstan, Korea (South), Kosovo, Kuwait, Kyrgyzstan, Latvia, Lebanon, Lithuania, Luxembourg, Macedonia, Malta, Malaysia, Mexico, Moldova, Mongolia, Morocco, Netherlands, New Zealand, Norway, Oman, Pakistan, Poland, Portugal, Qatar, Romania, Russian Federation, Saudi Arabia, Serbia and Montenegro, Singapore, Slovak Republic, Slovenia, South Africa, Spain, Sudan, Sweden, Switzerland, Syria, Tajikistan, Thailand, Tunisia, Turkish Republic of Northern Cyprus, Turkmenistan, Ukraine, United Arab Emirates, United Kingdom, United States of America, Uzbekistan and Yemen.

Almost all of the treaties mentioned above have a special provision for shipping. In most of the tax treaties, the profits arising from international transport will be taxed in the country of residence. However, in others, exclusive taxation rights belong to the country where effective management, headquarters or commercial centers are situated.

In some treaties, such profits may also be taxed in the other country, but in those cases the tax chargeable in that other state should be reduced by 50%.

1.4 Freight taxes
No freight taxes are levied in Turkey.

1.5 Tonnage Taxes
No tonnage taxes are levied in Turkey.

2. Human capital

2.1 Formalities for hiring personnel
The “seamen regulations,” published in the Official Gazette dated 31 July 2002, govern the adequacy, education, examination, certification, hiring, and working and health conditions of the seafarers working on vessels that fly the Turkish flag.

As Turkey is a member of the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW), the formalities for hiring are regulated by the STCW as well.

The following conditions apply to crew members:
> They should be citizens of the Turkish Republic or the Turkish Republic of Northern Cyprus (TRNC) or of Turkish nationality.
They should comply with the conditions concerning age, educational level, service time and other conditions as stated in the seamen regulations.

They should be able to produce documents in evidence of compliance with the necessary health conditions as stated in the seamen regulations.

They must not have been found guilty of any crime mentioned in the seamen regulations.

They must not have been found guilty of any crime committed against the state.

They must not have been found guilty of any crime related to criminal organizations.

### 2.2 National labor law

In general, the activities and employment relationships regarding sea transport are not subject to national labor law, except for:

- Ship loading and unloading operations in ports and on landing stages
- Operations related to seafood producers whose activities are not covered by the Sea Labor Law and not deemed to be agricultural work

Turkey has a separate law called the Sea Labor Law (20 April 1967/854), regulating the working conditions of crew members.

### 2.3 Regulations on hiring personnel

In ships and yachts that are registered in the TISR, regardless of the nationality of the owners of ships and yachts, the captain is required to be a Turkish citizen. If the shipowner is a Turkish citizen or a company falling under the scope of Article 940 of the Turkish Commercial Code, at least 51% of the personnel, excluding the cabotage line, must be Turkish citizens. However, there is no restriction in terms of the nationality of crew members, apart from the captain, if the shipowner is not a Turkish citizen.

### 2.4 Collective labor agreements

There is a collective labor agreement between the Directorate General of Maritime and Inland Waters Regulation and the Seamen Union of Turkey.

Although ship loading and unloading operations in ports and on landing stages are subject to Turkish Labor Law, other marine operations are subject to Turkish Sea Labor Law. This stipulates the basic requirements concerning labor agreements, including the form and layout of agreements, the number of copies and who will get those copies, the term of the agreements, wages, holidays, etc.

### 2.5 Treaties relating to social security contributions

The seafarers employed on vessels and yachts registered in the TISR are subject to the legislation on Turkish social security and individual and collective labor law.

However, foreign crew members working on vessels registered in the TISR are not covered by disability, old age and death insurances, unless such coverage is incorporated into the provisions of international or bilateral social security contracts and they are not covered by compulsory insurance in their country or special insurance in any other country.

To provide relief from double social security premiums and to assure benefit coverage, Turkey has entered into bilateral totalization agreements with the following countries:

- Albania, Austria, Azerbaijan, Belgium, Bosnia and Herzegovina, Canada, Croatia, Czech Republic, Denmark, France, Georgia, Germany, Korea (South), Libya, Luxembourg, Macedonia, Netherlands, Norway, Quebec **, Romania, Serbia, Slovak Republic, Sweden, Switzerland, Turkish Republic of Northern Cyprus*, and United Kingdom.

* Turkey is the only nation that recognizes the Turkish Republic of Northern Cyprus as an independent nation.

** Though not a country, Turkey has concluded an agreement with the Canadian province Quebec, in addition to Canada itself.

### 2.6 Issues with flying the Turkish flag with regard to hiring personnel

The wages of crew members working on vessels registered in the TISR are exempt from income tax.
3. Corporate structure

3.1 Most common legal structures for shipping activities
There is no special legal structure for the formation of companies engaged in shipping activities. However, most of the shipping companies operating in Turkey are established as a joint-stock company (A.Ş.) or a limited liability company (Ltd). The joint-stock company limits its shareholders' liability to the share capital. On the other hand, since one of the requirements of the TISR is that the owning company must be established in Turkey, the limited liability company provides establishment conveniences.

3.2 Taxation of profit distribution
In accordance with Article 94/6-b of the Income Tax Code, if the earnings derived from the operation of the vessels by the fully liable taxpayer entities are distributed to the following entities and real persons — resident real taxpayers and nonresident real taxpayers and entities — they are subject to a 15% withholding tax. However, if there is a DTT between Turkey and the country of which the nonresident real taxpayer or entity is resident, the provisions of that agreement are effective. In the event that the agreement stipulates a lower withholding tax ratio, the lower ratio applies.

The withholding tax on dividends will be levied at the time of distribution regardless of whether the company earnings are subject to exemption.

Nevertheless, dividends distributed to the following entities by the resident taxpayer entities are exempt from withholding tax:
- Resident taxpayer entities
- Nonresident taxpayer entities that gain dividends by a business office or permanent representative

In this context, according to the Corporation Tax Law General Communiqué No. 1, in the case of distribution of the earnings to be acquired from the operation and transfer of the vessels, dividends distributed to the resident real taxpayers are subject to withholding tax in accordance with Article 94/6-b of the Income Tax Code regardless of whether the company earnings are derived from the operation of the vessels completely or partially.

4. Grants and incentives

4.1 Specific and/or general subsidies available to shipping companies
There are no subsidies available to shipping companies in Turkey other than the tax incentives mentioned in sections 1.1 and 1.2.

4.2 Investment incentives for shipping companies and the shipbuilding industry
There are no specific investment incentives for the shipbuilding industry in Turkey except social security premium support for a certain period. On the other hand, investments related to cargo and/or passenger sea transportation utilize incentives, including tax deduction, customs duty and VAT exemption, social security premium support and interest support, and allocation of investment location, under certain conditions. Additionally, imported boat shells are exempted from customs duty for ships and yachts that are longer than 50 meters.

4.3 Special incentives for environmental awareness
There are no special incentives for environmental awareness regarding shipping companies and the shipbuilding industry. However, the incentive package published in the Official Gazette dated 19 June 2012 defines the environmental investments as those not directly related to the production of commercial goods and that aim at the disposal or clearance of waste materials of an existing facility or facility under construction. The environmental investments incentives include the VAT incentive, the customs duty
incentive and interest support, as well as income tax withholding support and social security premium support if the investment is realized in the less developed regions.

4.4 **Issues with flying the Turkish flag**

It is compulsory to fly the Turkish flag in order to operate within Turkish cabotage lines. However, although all the ships and yachts registered in TISR are entitled to fly the Turkish flag, they do not benefit from cabotage rights unless they are in compliance with Article 940 of the Turkish Commercial Code (section 5.1).

4.5 **Major changes in shipping subsidy legislation anticipated in the near future**

As Turkey is in a negotiation process with the European Union (EU) on the terms of full membership, the current shipping legislation will most probably be revised in accordance with EU directives.

5. **General information**

5.1 **Shipping regulations**

According to Cabotage Law No. 815, effective since 1926, providing all kinds of harbor services, performing trailer and pilotage activities by the coasts between and inside the harbors, and transporting passengers and loads to and from Turkish coasts are reserved exclusively to vessels flying the Turkish flag.

According to Article 940 of the Turkish Commercial Code, all Turkish ships are required to fly the Turkish flag. Any legal entity established with at least 51% Turkish nationality shareholding and with a Turkish majority on the board of directors is considered to be a Turkish ship and entitled to benefit from the Turkish cabotage line, regardless of whether the vessel in question is registered in the national or international registry.

According to TISR Law, the ships and yachts registered in the TISR are entitled to fly the Turkish flag and benefit from the privileges given by national legislation, with the exception of the cabotage line. In other words, the ships and yachts that do not qualify under Article 940 of the Turkish Commercial Code are not able to benefit from cabotage rights even though they are registered in the TISR.

5.2 **Infrastructure**

5.2.1 **Major ports**

The major ports are:

- Aliaga (Izmir, Aegean region)
- Alsancak (Izmir, Aegean region)
- Ambarli (Istanbul, Marmara region)
- Antalya (Antalya, Mediterranean region)
- Botas (Mersin, Mediterranean region)
- Gemlik (Bursa, Marmara region)
- Haydarpaşa (Istanbul, Marmara region)
- Isdemin (Iskenderun, Mediterranean region)
- Iskenderun TCDD (Iskenderun, Mediterranean region)
- Izmit (Izmit, Marmara region)
- Mersin (Mersin, Mediterranean region)
- Trabzon (Trabzon, Black Sea region)
- Tuzla (Istanbul, Marmara region)

Of the list above, Ambarli, Haydarpaşa, Alsancak and Mersin are the leading ports for container carriage.

5.2.2 **Port facilities**

The following facilities are available in most of the ports:

- Pilotage
• Towing and tugging
• Provisioning, fueling, watering
• Garbage collection, ballast waste disposal
• Port captain’s services
• Navigation aids
• Shore-based operational services essential to ship operations, including communications, water, electrical supplies
• Emergency repair facilities
• Anchorage, berth, berthing services
• Container handling, storage and warehousing, freight transport

5.2.3 Support services for the shipping industry
The following support services are available:
• Maritime agency
• Maritime freight forwarding
• Custom clearance
• Consulting firms specialized in shipping
• Maritime law
• Insurance brokers for the shipping industry

5.2.4 Maritime education
Maritime education is available in Turkey both at the high school level and university level. For most of the colleges and faculties listed below, English is a mandatory course. For the high schools listed below, a special education system is implemented in English.

University departments and vocational colleges:
• Black Sea Technical University Faculty of Maritime Sciences (Trabzon)
• Çanakkale Onsekiz Mart University Faculty of Maritime Sciences and Technology (Çanakkale)
• Dokuz Eylül University Faculty of Maritime Business and Management (İzmir)
• Gelibolu Piri Reis Vocational College of Maritime Education (Gelibolu)
• ITÜ Faculty of Maritime (İstanbul)
• Karamursel Vocational College of Maritime Education (Karamursel)
• Mersin Vocational College of Maritime Education (Mersin)
• Piri Reis University Vocational College of Maritime Education (İstanbul)
• Recep Tayyip Erdogan University Vocational College of Maritime Education (Rize)
• TUDEV Maritime Education Center (Tuzla)
• Uludag University Vocational College of Maritime Education (Bursa)
• Yıldız Teknik University Faculty of Ship Building and Maritime (İstanbul)
• Mustafa Kemal University Vocational College of Maritime Education (Hatay)
• Bodrum Vocational College of Maritime Education (Muğla)
• Balıkesir University Bandırma Faculty of Maritime (Balıkesir)

Vocational high schools (providing education in English):
• Bulancak Vocational High School of Maritime Education
• Fatsa Atatürk Vocational High School of Maritime Education
• Hatice Erdem Vocational High School of Maritime Education
• İstanbul Vocational High School of Maritime and Water Products
• Cesme Ulusoy Vocational High School of Maritime Education
• Mersin Ulusoy Vocational High School of Maritime Engineering
5.3 Safety and environmental issues

5.3.1 Implementation of the International Safety Management Code on board vessels
The rules of the International Convention for the Safety of Life at Sea (SOLAS) apply to Turkish vessels registered in the country, and the International Safety Management (ISM) Code is compulsory for these vessels (Chapter 9 of SOLAS).

5.3.2 Safety rules regarding manning
The existing safety rules for manning can be characterized as strict. High standards exist for education, qualifications and training of seafarers. In addition, Turkey is in compliance with the STCW.

5.3.3 Special regulations on safety and the environment
Turkey has ratified a large number of international treaties regarding marine pollution and safety of lives at sea, including the International Convention for the Prevention of Pollution from Ships (MARPOL) and SOLAS. In addition, Turkey is in full compliance with the International Maritime Organization (IMO) regulations.

In adapting to the acquis communautaire, Turkey has adopted many IMO rules and regulations and correspondingly harmonized its local legislation. The Directorate General of Maritime and Inland Waters Regulation continues to tailor its activities and studies for integration into the EU.

The Maritime Traffic Regulations for the Turkish Straits Act No. 98/11860 dated 8 October 1998 governs safety of navigation and safety of life, property and marine environment by aiming to improve the safety of vessel traffic in the straits. These regulations apply to all vessels entering or navigating within the limits of the Turkish straits.

Turkey has also entered into a number of regional conventions to achieve progress in the protection of the marine environment of the Black Sea and Mediterranean Sea and in the conservation of its living resources, including:

- Convention on the Protection of the Black Sea Against Pollution
- Convention for the Protection of the Mediterranean Sea Against Pollution
- Protocol Concerning Cooperation in Combating Pollution of the Mediterranean Sea by Oil and Other Harmful Substances in Cases of Emergency

The Turkish Marine Environment Protection Association (TURMEPA), which was established by well-known seafarers and businessmen of Turkey, is the first organization conducting studies on the Aegean, Mediterranean and Black Sea and aims to be an effective power in protecting these seas and coasts from pollution by ensuring that the national and international laws and agreements on this subject are enforced. Moreover, this nongovernmental organization has important goals, such as protecting endangered sea environments and ensuring that Turkey satisfies the requirements for international environmental laws and EU membership.

5.4 Registration

5.4.1 Registration requirements
In Turkey, there are two types of shipping registries: the NSR and the TISR.

All commercial vessels weighing 18 gross tons or more must be registered in the NSR in order to operate in Turkish territory. However, the optional TISR, the second registry, provides significant facilities for shipping companies.

Additionally, the owners or operators of ships, sea and inland vessels for commercial or private use, other than those registered to the TISR and those that are obliged to register to the NSR, are obliged to register such vessels to the registry file.
5.4.1.1 National Shipping Registry
The following ships and yachts can be registered in the NSR:
- Commercial vessels that have the right to fly the Turkish flag, in accordance with Article 940 of the Turkish Commercial Code
- Yachts and vessels consigned for the purpose of travel, sport, education and science
- Vessels built in Turkey on account of a foreign country or its citizens

5.4.1.2 Turkish International Shipping Registry
Pursuant to Turkish legislation, ships and yachts owned by Turkish and foreign people resident in Turkey and companies incorporated in Turkey may elect to be registered in the TISR. Furthermore, real people and corporations who are not resident in Turkey can register their ships in the TISR through a Turkish company’s holding stocks.

Also, according to Turkish International Maritime Law No. 4490, the following may elect to be registered in the TISR:
- Shipping companies registered in the NSR at the time that the law is effective
- Ships and yachts built in Turkey regardless of any tonnage limit
- Any kind of load and open sea fishing vessels above 3,000 DWT (deadweight tons) to be imported for commercial purposes and passenger crafts and specially built vessels above 300 gross tons

Bareboat chartered vessels and yachts may not be registered in the TISR.

5.4.1.3 Registry file
The owners or operators of ships, sea and inland vessels for commercial or private use, other than those registered to the TISR and those obliged to register to the NSR, are obliged to register such vessels to the registry file. The relevant registry files are to be kept by port authorities or by municipalities in inland waters.

An agreement for transfer of title of a vessel, marine vehicle or inland water vehicle registered in the registry file will not be deemed effective unless it is made before the relevant port authority or the relevant office of the mayor and notary. Noncommercial vessels, marine vehicles or inland water vehicles belonging to foreign real persons who have residence permission can be registered in the registry file. These vessels, marine vehicles or inland water vehicles will fly the Turkish flag, notwithstanding the provisions of Article 940 of the Turkish Commercial Code. However, the provisions of the Cabotage Law are reserved.

Each vessel, marine vehicle or inland water vehicle registered in the registry file will be granted a license. A license will be prepared for each ship, sea and inland vessel registered in the registry file and will be endorsed every five years by the port authority or municipality in which the file is kept. The visa will remain valid up to five years. Registered and duly licensed vessels, marine vehicles or inland water vehicles are exempt from all kinds of vessel health and beaconage fees.

The owner and operator of the vessels, marine vehicles or inland water vehicles without licenses or visas will be fined as stated in the Registry File Application Regulations, which was published in the Official Gazette dated 25 September 2014. Moreover, those vessels, marine vehicles or inland water vehicles will not be granted the documents necessary under the Maritime Law and will not be allowed to sail even within the port or inland waters.

Licenses and their visas shall be subject to the fee determined under the Fees Act (tariff no. 8, Section XIII), according to the length of ship, sea and inland vessel. The fee amounts to be paid are provided below:
- On those from 5 meters up to 9 meters (TRY378.30)
- On those from 9 meters up to 12 meters (TRY756.90)
- On those from 12 meters up to 20 meters (TRY1,514.10)
- On those from 20 meters up to 30 meters (TRY3,028.50)
- On those larger than 30 meters (TRY6,057.30)
5.4.2 Registration fees
The owners of the ships registered in the TISR are charged the registration fee and annual tonnage fee according to Article 12/a of the TISR Law.

Registration fee
In addition to the Turkish lira equivalent of US$10,000, the Turkish lira equivalent of US$1 is charged for every net ton. For yachts, the registration fee is US$5,000.

Annual tonnage fee
For every net ton, the Turkish lira equivalent of US$1 is charged to the ships for each calendar year that they are registered in the TISR.

The role of Turkish Lloyd in TISR
Turkish Lloyd is an independent, specialized, national institution that renders audit and certification services, aiming to safeguard life, property and the environment. The objectives of the organization include neutrality and continual improvement of its expertise.

If a ship or yacht is registered in the TISR and is also registered with Turkish Lloyd as a direct or dual class, a 50% reduction is granted in the registration fee and annual tonnage fee.

5.4.3 Ship registration procedure
Ownership can be registered by filing the following documents:
- The petition for registration
- For real persons: a copy of their birth certificate and residence certificate
- For commercial companies: a copy of the announcement of their establishment in the Trade Registry Gazette and a list of authorized signatures
- A tonnage certificate
- The invoice or construction certificate of the vessel
- The tax sign/tax identification number
- The statement of clearance of the bill of sale or sales invoice for vessels purchased abroad
- A certificate of deletion from the registry of another country, if applicable
- An incentive certificate for vessels that are entitled to incentives

5.4.4 Parallel registration
There is no possibility of parallel registration in Turkey. According to Article 962 of the Turkish Commercial Code, a vessel cannot be registered in a Turkish shipping registry as long as it is registered in a foreign shipping registry.

5.4.5 Requirements for the officers and crew serving on vessels
See section 2.3.

5.4.6 International conventions regarding registration
No international conventions regarding registration have been adopted.

5.4.7 Special requirements/rules relating to registration
There are no special requirements regarding registration.
United Arab Emirates

1. Tax considerations

1.1 Shipping companies taxation
UAE shipping companies

The tax laws generally apply to shipping companies as they would apply to any other company operating in the United Arab Emirates (UAE). There is currently no federal UAE taxation. Each of the individual Emirates (Abu Dhabi, Ajman, Dubai, Fujairah, Ras Al Khaimah, Sharjah and Umm Al Quwain) has issued corporate tax decrees that theoretically apply to all businesses established in the UAE. However, in practice, these laws have not been applied.

Taxes are currently enforced at the Emirates level only on the following:

- Oil- and gas-producing companies (oil and hydrocarbon companies with actual production in the Emirates), as per specific government concession agreements (which are confidential)
- Branches of foreign banks under specific tax decrees or regulations or fixed in agreements with the rulers of the Emirates in which the branches operate

This is merely how taxation has evolved in the UAE. There is no general exemption in the law. Anyone investing in the UAE should be aware of the risk that the law may be more generally applied in the future and of the remote risk that it may be applied retroactively.

Foreign shipping companies

As mentioned above, only oil- and gas-producing companies and branches of foreign banks should be subject to tax in the UAE.

Introduction of corporate taxation in the UAE

On 30 June 2015, the UAE Ministry of Finance (Ministry) published its 2014 Annual Report (Report). One of the initiatives outlined in the Report is the establishment of a tax system within the UAE operated through the creation of a tax department responsible for the collection and implementation of federal taxes. In line with this initiative, the Report indicated that the Ministry’s corporate tax policy has been approved by the UAE Cabinet and a corporate tax law has been drafted. The current level of completion of the Ministry’s initiative on the establishment of a taxation system in the UAE indicates that the Ministry is in advanced stages of this initiative.

However, the actual introduction of corporate tax may still be some time away. Also, the creation and staffing of a Federal Commission for Taxes (i.e., a Tax Authority) will take some time since there is currently no tax compliance requirement in the UAE with the exception of oil- and gas-producing companies and branches of foreign banks as explained above. Moreover, the interaction of the federal corporate tax with tax legislation at specific Emirates' levels remains unclear and may cause some challenges in future.

No details have been disclosed to date regarding how international shipping activities would be impacted by the introduction of corporate taxation in the UAE.

1.2 Capital gains
There is currently no capital gains tax imposed in the UAE.

1.3 Withholding tax
There is currently no withholding tax in the UAE.

1.4 Taxation of individual income of a seafarer
The UAE does not currently impose personal income tax.

1.5 Value-added tax
There is currently no value-added tax (VAT) imposed in the UAE.
The introduction of VAT at a Gulf Corporation Council (GCC) level has been considered for some time, and in March and May 2015, representatives from the GCC member states met to restart the discussions on the specifics of a potential GCC VAT regime. In a meeting held in December 2015, the GCC states agreed on key issues to apply zero tax to the health care, education and social services sectors and also exempted 94 food items.

Based on publicly available information, we understand that the representatives agreed upon a draft VAT framework agreement under which each GCC member state will develop its own domestic VAT law. It is expected that this VAT framework agreement will be released into the public domain in 2016.

As neither the VAT framework agreement nor any of the respective domestic GCC VAT laws have been released into the public domain, it is currently not known how companies in the shipping industry will be impacted by the potential introduction of GCC VAT. It is recommended that shipping companies remain up-to-date with developments and that they review the GCC VAT consequences of their activities once further details are released in relation to the proposed VAT laws.

1.6 Customs duty
The UAE is part of the GCC Customs Union along with Bahrain, the Kingdom of Saudi Arabia, Kuwait, Oman and Qatar. Under the unified GCC Customs Law, most foreign imports are subject to a customs duty of 5% of cost, insurance and freight (CIF) invoice value (apart from those goods on an exemption list and certain items, such as alcohol and tobacco, that are subject to higher rates of customs duty). The GCC Customs Law is based on the principle of a single entry point upon which all customs duty on foreign imported goods is collected. There is no export duty applied to goods leaving the GCC Customs Union.

UAE free zones are generally seen as foreign territories for customs duty purposes (i.e., are not considered within the scope of the GCC Customs Union). Goods (both raw materials and finished goods) should not incur customs duty on import into a UAE free zone, and there is no export duty applied on goods removed from a UAE free zone. If goods leave a UAE free zone for a destination within the GCC member states, customs duty will be levied on the import at the first point of entry into the GCC.

There are specific customs administration procedures that must be followed for ships entering both the UAE and the UAE free zones. The shipmaster must submit an original copy of its manifest reflecting the details of the ship's entire load to the relevant UAE Customs Authority when the ship enters the UAE's customs area. In addition to the manifest, full customs documentation must be submitted for each consignment intended for import into the UAE or the UAE free zones.

1.7 Freight taxes
No freight taxes are levied in the UAE at present.

1.8 Special vessel registration tax benefits for shipowners
As mentioned above, shipping companies should not be subject to corporate taxation in the UAE, and as such, no vessel registration tax benefits are available to shipowners in the UAE.

1.9 Tax treaties and place of effective management
As of January 2016, the UAE has more than 60 tax treaties currently in force, including those with the following countries: Albania, Algeria, Armenia, Austria, Azerbaijan, Bangladesh, Belarus, Belgium, Bosnia and Herzegovina, Brunei, Bulgaria, Canada, China, Cyprus, the Czech Republic, Egypt, Estonia, Finland, France, Georgia, Germany, Hungary, India, Indonesia, Ireland, Italy, Japan, Kazakhstan, Korea (South), Latvia, Lebanon, Lithuania, Luxembourg, Malaysia, Malta, Mauritius, Mexico, Montenegro, Morocco, Mozambique, the Netherlands, New Zealand, Pakistan, Panama, Philippines, Poland, Portugal, Romania, Russia (limited), Serbia, Seychelles, Singapore, Slovenia, Spain, Sri Lanka, Sudan, Switzerland, Syria, Tajikistan, Thailand, Tunisia, Turkey, Turkmenistan, Ukraine, Venezuela, Vietnam and Yemen.

In addition, treaties with the following jurisdictions are in various stages of negotiation, renegotiation, signature, ratification, translation or entry into force: Andorra, Argentina, Barbados, Benin, Belize, Comoro,
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Islands, Croatia, Ecuador, Ethiopia, Fiji, Greece, Guernsey, Guinea, Hong Kong, Jersey, Jordan, Kenya, Kyrgyzstan, Libya, Liechtenstein, Macedonia, Malawi, Mauritania, Moldova, Nigeria, Palestine, Peru, Senegal, Slovak Republic, Uganda, Uruguay, United Kingdom and Uzbekistan.

1.10 Tonnage tax
The UAE currently does not have a tonnage tax regime in place.

1.11 Miscellaneous matters

1.11.1 Anti-avoidance legislation
There is no specific anti-avoidance legislation in the UAE at the domestic level. However, the UAE’s tax treaties are starting to include specific anti-abuse provisions. First, some treaties exclude certain persons from their scope (e.g., UAE tax treaties with Germany and Ireland). Second, some contain general rules to prevent treaty shopping (e.g., UAE tax treaties with Luxembourg and Belgium). Third, some deter treaty shopping by including anti-abuse provisions that disallow treaty relief in the absence of a bona fide business activity (e.g., UAE tax treaty with India). Fourth, some require the UAE person to be the beneficial owner of income in order to qualify for certain types of treaty relief (this is the case for most UAE tax treaties).

1.11.2 Thin capitalization rules
There are currently no thin capitalization rules in the UAE.

1.11.3 Transfer pricing
There are currently no transfer pricing regulations in the UAE.

1.11.4 Bilateral agreements for investment and trade
As of January 2016, the UAE has signed the following bilateral free trade agreements and bilateral investment protection treaties.

\textit{Bilateral free trade agreements:}

- The Greater Arab Free Trade Agreement (GAFTA) – members include Algeria, Egypt, Iraq, Jordan, Lebanon, Libya, Morocco, Palestine, Sudan, Syria, Tunisia, Yemen and the GCC member states (1997)
- GCC-Singapore Free Trade Agreement (GSFTA) – members include the GCC member states and Singapore (2013)

\textit{Bilateral investment protection treaties}

The UAE has also entered into several agreements, that are currently in force, for the protection and promotion of investment with Algeria, Austria, Azerbaijan, Belarus, BLEU (Belgium-Luxembourg Economic Union), China, Czech Republic, Egypt, Finland, France, Germany, India, Italy, Jordan, Korea (South), Lebanon, Malaysia, Morocco, Poland, Portugal, Romania, Russian Federation, Serbia, Sweden, Switzerland, Syria, Tunisia, Turkey, Turkmenistan, Ukraine, United Kingdom, Uzbekistan and Yemen.

In addition, the UAE has signed several bilateral investment agreements that are yet to enter into force.

1.12 Domestic law and international maritime conventions\textsuperscript{1}

The UAE Federal Law No. 26 of 1981 as amended in 1988 (known as the UAE Maritime Law) governs and regulates all shipping practices in the UAE. The law is applicable to all Emirates of the UAE. The law is based on modern international law and maritime principles set out in international conventions. It is also very similar to the maritime laws of the other Arabian GCC states (other than Saudi Arabia).

In addition to the UAE Maritime Law, there are several relevant Ministerial Decrees or local laws regulating registration of vessels, crewing, classification of vessels, restrictions with regards to activities undertaken by foreign flag vessels and other activities in port according to the relevant port ordinances applicable in the individual emirates.

We understand that the UAE has not yet signed all the major international maritime conventions. However, in

\textsuperscript{1} For more information, go to www.uae-shipping.net.
practice, the UAE typically adheres to the following international treaties and conventions:

- CLC Convention 69
- CLC Protocol 76
- CLC Protocol 92
- COLREG Convention 72
- FUND Convention 71
- FUND Protocol 92
- IMMARSAT Convention 76
- IMMARSAT OA 76
- IMO Amendments 93
- INTERVENTION Convention 69
- LC Convention 72
- LL Convention 66
- LLMC Convention 76
- SALVAGE Convention 69
- SAR Convention 79
- SOLAS Convention 74
- SOLAS Protocol 78
- STCW Convention 78
- TONNAGE Convention 69

2. Human capital

2.1 Regulations on employing personnel
Currently, there are no special employment regulations for crew members in the UAE. Companies employing crew members in the UAE must follow the laws and regulations set out in the UAE Labour Law or the relevant free zone labor laws where applicable.

2.2 UAE social security
Social security contributions for pensions are applicable in the case of UAE and other GCC nationals. Payroll deductions and employer contributions must be made to the UAE Federal Pension Fund according to the following rates on a monthly basis (except those working in Abu Dhabi who are subject to different rates):

- 5% of the employee's wage mentioned in the employment contract must be deducted towards this fund.
- 12.5% of the employee's wage mentioned in the employment contract must be contributed by the employer.
- 2.5% of the employee's wage mentioned in the employment contract is contributed by the federal government.

Regarding other GCC nationals, UAE social security contributions and payments for pensions must also conform to the social security regulations in the GCC national employee's home country.

2.3 Wage protection system
The wage protection system (WPS) is an electronic salary transfer system that allows institutions to pay workers' wages through authorized banks, bureau de change and financial institutions. The Central Bank of the UAE will regularly issue an updated list of financial institutions that are approved and authorized to offer wage payments serviced through WPS (agents). WPS enables the Ministry of Labor to create and maintain a database of wage payments in the private sector.

Any individuals employed on an offshore basis are not required to follow the WPS rules. However, if an
individual is employed and obtains a UAE residency permit, the WPS rules would apply.

2.4 **End-of-service benefits**
All employees who complete a period of continuous service that is longer than one year are entitled to gratuity computed as follows:

- Twenty-one days’ basic wages for every year of the first five years of service
- Thirty days’ basic wages for every year thereafter, provided that the gratuity does not exceed two years in total

Gratuity is calculated according to the last basic wage paid to the employee and is payable on the termination or expiry of the contract of employment. The employee will be entitled to gratuity for any fraction of the year of service, provided he or she has completed at least one year of continuous service.

Rules may vary depending on the type of contract of the employee (i.e., limited or unlimited contract) and the manner of termination of the employment agreement.

2.5 **Facilities for seafarers**
The provisions of the UAE Labour Law regarding rules and regulations between employer and employee also apply to seafarers. The general incentives available to any employee in the UAE (e.g., social security contributions, working hours, annual leave) are also available to seafarers.

3. **Corporate structure**

3.1 **Legal structure for shipping activities**
According to the Department of Economic Development in the UAE, the most commonly used legal structure for shipping companies is a limited liability company (LLC). The standard foreign ownership restriction of 49% applies in such cases. In LLCs, 51% of the capital should be owned by UAE nationals and the managers should be UAE nationals.

3.2 **Taxation of profit distribution**
The UAE does not impose any withholding tax on dividends distributed.

4. **Grants and incentives**

4.1 **Specific and general subsidies available to shipping companies**
As described above, corporate tax is currently only levied against oil- and gas- producing companies and branches of foreign banks, and on this basis, shipping companies should not be subject to tax in the UAE. As such, there are no specific or general subsidies available to shipping companies in the UAE from a tax perspective.

4.2 **Maritime aids to navigation**
In February 2013, the Dubai Maritime City Authority (DMCA) announced new rules and initiatives concerning the deployment of navigation aids as it focused attention on safety in navigation channels and seeks to eliminate the risk of maritime accidents.

A no-objection certificate from the DMCA will be required of any entity that plans to deploy navigation aids in the UAE. The DMCA will also seek a detailed deployment plan and an annual maintenance plan as well as monthly updates.

4.3 **Major changes in shipping legislation anticipated in the near future**
We have been advised that the relevant authorities are in discussions regarding draft amendments to the UAE Maritime Law. We are not aware of any time frame for these amendments to be finalized.
5. General information

The UAE National Transport Authority (NTA) was established in accordance with the Federal Law No.1 of 2006. The NTA, in relation to maritime issues, is responsible for the following:

- To propose the general policies, bill laws and regulations on marine services and land transport in coordination with the competent authorities and to supervise implementation of the same
- To ensure compliance of the overseas navigation regulations with the international standards applicable by the Emirates in general and to take the necessary procedures to apply the same
- To develop rules regulating navigation in the UAE ports for good traffic and provision of the proper marine facilities and to develop programs for maintaining the land roads inside the ports and promoting their services, in agreement and coordination with the local competent authorities
- To issue all licenses, permits and certificates on navigation and the international sea and land transport services between the Emirates and to specify the issuance conditions and collection of the prescribed taxes, fees and rates
- To develop overseas navigation rules, particularly nationality conditions, registration rules and flag fixing and the powers of the UAE on the ships carrying its flag and rules for good navigation conditions and the safety of people, and to have ships equipped with the necessary systems for avoiding accidents and to maintain their means of communication
- To draw the plans necessary for organization and improvement of the land and sea transport between the Emirates for easy and developed transport
- To represent the UAE in international and regional conferences relevant to the NTA’s discipline
- To prepare projects or propose joining the international treaties in connection with the NTA’s discipline
- To address any other disciplines assigned to the NTA under any laws or resolutions passed by the Cabinet

5.1 Infrastructure

5.1.1 Major ports

There are two main ports operated by the Dubai port authority. These are:

- Port Rashid
- Jebel Ali Port

There are also several other ports within the UAE, which are:

- Jebel Ali, Dubai
- Mina Rashid, Dubai
- Mina Zayed, Abu Dhabi
- Mina Khalid, Sharjah
- Khor Fakkan, Sharjah
- Khalifa Port, Abu Dhabi
- Free Port, Abu Dhabi

There are port facilities within the Ras Al Khaimah and Ajman Emirates of the UAE.

5.1.2 Port facilities

The following facilities are available:

- Maintenance and repair
- Docking
- Storage
- Cranes for every size of vessel

2 For more information, go to: www.uae-embassy.org.
5.1.3 Implementation of the International Safety Management Code
Compliance with the requirements of the International Safety Management (ISM) Code by shipping companies is required in the UAE.

5.2 Registration

5.2.1 Licensing of vessels
The licensing of vessels ensures:
1. The vessels are inspected and surveyed periodically (once a year), ensuring:
   - Vessels maintain adequate safety of vessels, crew and passengers.
   - Vessels meet international standards of ship construction.
   - Vessels are equipped to ensure they are environmentally sound and do not cause any pollution.
   - The vessels are “fit for purpose.”
2. The vessels are built to recognized and approved international standards.
3. The vessel ownership is recorded in a database and transfer of ownership is well-regulated.
4. Unauthorized persons do not operate the vessels for any illegal activities.
5. Vessels are operated by licensed crew.
6. All vessels are insured for any accidents and damages.
7. The local coast guard or police authorities are able to identify the vessels at any time.
8. The vessel complements the safety and security of the coast of Dubai in conjunction with local and federal authorities.

5.2.2 Vessel inspection
Vessels that wish to operate or conduct any maritime activities in the Dubai waters shall be subject to an inspection by the DMCA and the NTA. An inspection shall be mandatory for the application and renewal of a license for a vessel to operate in Dubai waters or if there is a major modification in the vessel or change of ownership of the vessel. A written report shall be furnished to the owner, charter or agent of the vessel upon completion of the inspection.

5.2.3 Registration of vessels and seagoing units under the UAE flag
Each vessel should carry a name, have a nationality and fly the country’s flag and the name of the port at which it is registered. As such, any vessel registered in the UAE should carry the UAE flag.

Ships flying UAE flag
All ships that acquire UAE nationality should fly the UAE flag and shall not be permitted to fly flags of other states except in cases where maritime custom prevails.

Ship registration procedure
Every UAE resident vessel is required to register in the office of maritime authority. The NTA shall also decide the ship’s tonnage, and a certificate for tonnage is issued to the owner of the vessel by a competent marine authority.

Application for registration is required to be submitted within 30 days from the date of building or ownership of the vessel.

The owner should submit an application to the ships registration section at port, along with the following documents:
- Maritime Transportation Vessel purchase invoice attested to by the competent authorities
- Certificate of Manufacture of the Maritime Transportation Vessel certified by the competent authorities
- Certificate of Balance for the Maritime Transportation Vessel certified by the competent authorities
- Certificate of Clearance for the Maritime Transportation Vessel, if it was imported from outside the state

3 For more information, go to: www.dmca.ae.
Maritime Transportation Vessel technical inspection documentation

There are separate requirements for fishing vessels and pleasure boats.

The navigation license and the safety certificate are granted upon the application submitted to the maritime authority. The navigation license is valid for one year and is renewable upon satisfaction of certain conditions.

Upon registration, every vessel is required to carry official documents, including the certificate of registration, crew log, navigation license for the current year, health certificate and declaration of cargo while on the voyage.

5.2.4 Foreign vessels entering UAE territorial waters

Foreign vessels must carry documents as prescribed under the laws of their respective countries, in addition to licenses and certificates of safety compliance under international conventions.

Foreign vessels registered in the UAE cannot operate in UAE territorial waters unless they carry a valid navigation permit issued by the NTA. A permit can be obtained by submitting an application form to the NTA.

5.2.5 Navigational warnings

The DMCA and the relevant port authority organize the navigation of vessels inward and outward of the ports of the UAE and in the territorial waters. This is carried out by issuing maritime navigational warnings defining the safe waterways/sailing prohibited areas and guiding ships passing over the territorial waters.
1. Tax

1.1 Tax facilities for shipping companies

There are two alternative corporate income tax regimes for shipping companies: corporate tax based on tonnage and corporate tax based on profits.

Corporate tax based on tonnage

The United Kingdom (UK) tonnage tax regime was introduced in August 2000. It follows a model adopted by a number of other European countries. The benefits of the regime depend on fulfilling certain training requirements and have been effective from 1 January 2000.

Election: A qualifying company or group must elect for the new regime to apply. An election generally has effect for 10 years, unless a company or group ceases to qualify for the tonnage tax regime. Elections can only be withdrawn in limited circumstances. Qualifying companies or groups must make the election within 12 months of the date on which they become qualifying or 12 months from the day of the merger that created the new group.

Requirements: To benefit from the regime, a company must be subject to UK corporate income tax and operate qualifying ships that are strategically and commercially managed in the UK. HM Revenue & Customs (HMRC) manuals emphasize the importance of independent decision-making and a range of commercial management being conducted in the UK with the emphasis on high levels of decision-making.

A group qualifies if one or more members are qualifying companies. There are restrictions on the percentage of ships that may be chartered in on a time-charter basis and other anti-avoidance provisions have been introduced, for example in relation to ship-leasing structures.

Calculation of tonnage tax: A company or group in relation to which a tonnage tax regime election has effect is known as a tonnage tax company (TTC) or tonnage tax group (TTG). For the purposes of corporate income tax, a TTC's relevant shipping profit (RSP) is replaced by its tonnage tax profit (TTP). TTP is calculated by reference to the qualifying daily net tonnage of each ship operated by a TTC according to the following table:

<table>
<thead>
<tr>
<th>Total net tonnage</th>
<th>Profit per day per 100 tons £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 1,000</td>
<td>0.60</td>
</tr>
<tr>
<td>1,001 to 10,000</td>
<td>0.45</td>
</tr>
<tr>
<td>10,001 to 25,000</td>
<td>0.30</td>
</tr>
<tr>
<td>Over 25,000</td>
<td>0.15</td>
</tr>
</tbody>
</table>

TTP is the aggregate of the calculations for each ship. The normal rate of corporate income tax (see below) is then applied to TTP.

Relevant shipping profit: Relevant shipping profit (RSP) is made up of four elements:

1. Income from tonnage tax activities
2. Dividends received from non-UK shipping companies that would qualify for tonnage tax if they were UK tax resident and subject to UK corporate income tax; such dividends must be paid out of profits generated in a period when the paying company would have qualified for tonnage tax (e.g., if it had been UK resident)
3. Interest, foreign exchange gains and losses, and profits on interest rate and currency contracts that are so closely related to core tonnage tax activities that they are not treated as investment income
4. Chargeable gains arising on the disposal of assets used for the tonnage tax trade
Tonnage tax activities are broadly the operation of qualifying ships and specified ancillary activities. The tonnage tax activities of a company are treated as a separate trade distinct from all other activities and no relief, deduction or setoff of any description is allowed against TTP. An accounting period ends when a company enters or leaves tonnage tax and any pre-tonnage tax losses attributable to tonnage tax activity are extinguished on entry. There are special provisions covering the suspension of capital allowances; such provisions depend on the length of time the company remains within the tonnage tax regime. Gains on qualifying assets held prior to entering the regime are reduced according to how long an election has been in force.

Minimum training obligation: Companies will be eligible for tonnage tax benefits only if they meet the minimum training obligation. According to the size of the fleet and the number of officers employed, the company will have to find, or fund, places for an agreed number of officer trainees, and consider measures to develop ratings. The Department for Transport (DfT) must approve a TTC’s training plan before it can be admitted to the tonnage tax regime by HMRC.

Taxpayers are required to submit training plans to the DfT annually. Training plans generally have to be submitted, including any updates, to the DfT by 31 August each year and apply from 1 October in the same year.

European Union (EU) flagging: Under EU law, tonnage tax is considered to be a form of state aid, and, as such, the European Commission (EC) issued guidelines on maritime state aid in 2004. These guidelines sought to encourage countries to have a greater percentage of their fleet flagged in a Member State of the EU (which includes the European Economic Area (EEA) for these purposes).

The UK response was to introduce legislation requiring a greater percentage of a tonnage tax operator’s fleet to be EU flagged. This legislation will apply unless the Secretary of State specifies that it will not have effect for a particular fiscal year. This will only happen if the proportion of vessels in the tonnage tax regime that are EU flagged has decreased compared with the previous year.

For fiscal years 2008-15, the Secretary of State announced that the legislation would apply. Consequently, any new vessel added to a tonnage tax operator’s fleet would need to be EU flagged in order to be a qualifying ship, unless either of the following conditions is met:

- The company already has an average of at least 60% of its tonnage flagged in the EU beginning with the start of the financial year and ending on the day the company begins to operate the new vessel.
- The percentage of the company’s tonnage that is EU flagged has not decreased since the later of 17 January 2004 or the end of the accounting period during which the company or group entered tonnage tax.

Guidance regarding the tonnage tax regime may be found in the UK HMRC Tonnage Tax Manual. This can be accessed at www.hmrc.gov.uk/manuals/ttmanual/index.htm.

Corporate tax based on profits

Rates of corporate income tax: As from 1 April 2015, a single rate of 20% applies to small and large companies. The UK government has announced intentions to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020.

Tax depreciation: The UK tax regime provides for capital allowances (tax depreciation) to be given against the cost of acquiring assets for trading purposes. Note that “trade” for UK tax purposes is generally regarded as a narrower concept than “business.” Capital allowances reduce taxable profits or increase tax losses. Ships qualify for capital allowances as “plant and machinery” and receive an annual 18% writing down allowance (WDA) on a reducing-balance basis.

In addition to the general rules, capital expenditures on ships attract special treatment. As shipping companies are heavy investors in capital items, they are allowed to carry forward unused allowances that may arise in periods of low profitability. Any brought-forward allowance can be used in addition to the full WDA for
the later year.

There is further flexibility allowed regarding any balancing charge (clawback of tax depreciation in excess of true economic depreciation) arising on disposal of a qualifying ship, whereby the charge may be deferred against expenditure on new qualifying ships incurred in the following six years.

For the special treatment to apply, ships must be seagoing and 100 gross registered tons or more and must not be used for sport or recreational purposes.

Ship expenditure may be subject to provisions that give reduced rates of allowances on assets with a long economic life (at least 25 years). Expenditure on long-life assets is written down in a separate pool at a rate of 8% a year on a reducing-balance basis.

As from 1 April 2013, certain 100% first-year allowances in respect of the cost of acquiring certain types of plant and machinery (generally energy-saving or environmentally beneficial assets) have now been extended to ships, subject to relevant conditions.

When a capital gain arises on the disposal of a ship, the gain may be rolled over into the tax base cost of a new business asset if the proceeds received from the disposal of the ship are used to acquire the new asset. The new asset must, in general, be acquired in the period beginning 12 months before and ending three years after the disposal of the ship.

As indicated above, the provisions are displaced or modified if a tonnage tax election is in force.

Leasing: Very detailed rules apply to the leasing of ships, both from the point of view of obtaining lease finance and from the point of view of companies that charter vessels.

These include new rules that apply to relevant payments made from 1 April 2014, the intention being to restrict the potential tax deduction otherwise available to certain companies operating in the UK Continental Shelf (UKCS) regarding bareboat charter costs payable to associated persons for drilling rigs and accommodation vessels, where these arise as part of a composite service.

Leasing arrangements may also be affected by the recently introduced diverted profits tax (DPT) rules (see below).

Detailed advice should be sought regarding these issues and other tax implications arising from the leasing of ships.

DPT: The new UK DPT came into force on 1 April 2015. It is normally charged at a rate of 25% on a company’s diverted taxable profits i.e., higher than the main rate of corporation tax (currently 20% — see above).

The main objective is to counteract arrangements that are perceived as contrived and as resulting in the erosion of the UK tax base. Specifically, two types of arrangements are targeted:

▪ Exploitation of tax mismatches using entities or transactions lacking economic substance
▪ The avoidance of a UK permanent establishment

The DPT also allows HMRC to re-characterize such arrangements.

Taxpayers are required to notify HMRC of a potential charge to DPT, based on certain hallmarks, and potentially to pay an initial amount, as assessed by HMRC, without the ability to postpone the tax, thereby strengthening HMRC’s negotiating position and requiring increased transparency.

The DPT rules are widely drafted and, therefore, potentially affect a broad range of taxpayers and transactions, including commercial arrangements that are commonplace in the shipping industry. It is therefore important that taxpayers seek advice regarding how they may be affected and what action they can take to manage any exposure.

Value-added tax (VAT): Many supplies in connection with shipping are zero rated (exempt with credit), including:

▪ The supply of qualifying ships (gross tonnage not less than 15 tons and not designed or adapted for recreation or pleasure)
The supply of parts and equipment of a kind ordinarily installed or incorporated in a qualifying ship
The supply of life jackets, life rafts, smoke hoods and similar safety equipment for qualifying ships
The repair or maintenance of qualifying ships
The modification and conversion of a qualifying ship, provided that, when modified or converted, it will remain a qualifying ship
The supply of services under charter of a qualifying ship (unless services are wholly performed in the UK and consist wholly of any one or more of transport of passengers, accommodation, entertainment or education)
Letting on hire of qualifying ships
Handling services provided for qualifying ships subject to conditions and excluding the letting on hire of goods
Surveys and classification services provided in connection with a qualifying ship
Salvage and towage services, whatever the type of ship
Pilotage services, whatever the type of ship

Provision of passenger transport is normally zero rated (including where this is provided in any vehicle designed or adapted to carry not fewer than 10 passengers, or by providers of universal postal services, or from a place within the UK to outside the UK (or vice versa) to the extent that those services are supplied within the UK). There are some exceptions: freight and ancillary services are usually standard rated for VAT but may be zero rated or outside the scope in certain circumstances (such as for business-to-business transactions where the customer belongs in a different EU country or a non-EU country). Freight transport and associated services taking place wholly outside the EU are outside the scope of UK VAT when performed for UK businesses and charities.

1.2 Tax facilities for seafarers

Wage costs deduction
As with any other wage expense incurred wholly and exclusively for the purposes of a trade of a company in the UK, the wage costs of seafarers are deductible when calculating taxable profits.

Seafarers’ earnings deduction
Seafarers are still entitled to a special tax relief that can reduce or eliminate the UK tax payable on their employment income, even if they remain tax resident in the UK. A foreign earnings deduction exists for seafarers who are able to meet the following conditions:

- The seafarer is resident for tax purposes in the EEA or an EU state and is subject to UK income tax in respect of what is known as general earnings.
- The duties of the employment are performed wholly or partly outside the UK. For this to be the case, the employee must carry out duties on at least one journey that begins or ends at a non-UK port.
- Some part of those duties must be performed in the course of an eligible period falling wholly or partly in the tax year.

Non-UK resident seafarers who are resident in the EEA or EU are taxable in the UK on earnings for seafaring duties performed in UK waters, and the seafarers’ earnings deduction may be claimed against these earnings only.

The deduction is available where, for any part of a tax year, a seafarer works wholly or partly outside the UK as part of a qualifying period of working outside the UK that lasts for at least 365 days. Special rules, which allow for return trips to the UK, apply for determining a qualifying period.

The seafarer’s general earnings relating to the period of working outside the UK are excluded from income tax. The allowable deduction is equal to the amount of the earnings attributable to the eligible period. Certain types of employment income, such as share awards and termination payments, are not normally eligible for the deduction.

Please note that, prior to applying the foreign earnings deduction to the relevant income, the following
deductions should first be taken into consideration:
• Pension contributions
• Allowable expenses
• Capital allowances

1.3 Tax treaties
The UK has one of the most extensive networks of tax treaties. In addition, it has limited agreements specifically relating to taxes on income from international transport, including shipping. Most UK treaties follow the Organisation for Economic Co-operation and Development (OECD) model treaty and include an article on international transport.

The UK has concluded tax treaties with the following jurisdictions:
Albania, Antigua and Barbuda, Argentina, Armenia, Australia, Austria, Azerbaijan, Bahrain, Bangladesh, Barbados, Belarus, Belgium, Belize, Bolivia, Bosnia and Herzegovina, Botswana, British Virgin Islands, Brunei Darussalam, Bulgaria, Canada, Cayman Islands, Chile, China, Côte d’Ivoire, Croatia, Cyprus, Czech Republic, Denmark, Egypt, Estonia, Ethiopia, Falkland Islands, Faroe Islands, Fiji, Finland, France, Gambia, Georgia, Germany, Ghana, Greece, Grenada, Guernsey, Guyana, Hong Kong SAR, Hungary, Iceland, India, Indonesia, Ireland, Isle of Man, Israel, Italy, Jamaica, Japan, Jersey, Jordan, Kazakhstan, Kenya, Kiribati, Korea (South), Kuwait, Latvia, Lesotho, Libya, Liechtenstein, Lithuania, Luxembourg, Macedonia, Malawi, Malaysia, Malta, Mauritius, Mexico, Mongolia, Montenegro, Montserrat, Morocco, Myanmar, Namibia, Netherlands, New Zealand, Nigeria, Norway, Oman, Pakistan, Panama, Papua New Guinea, Philippines, Poland, Portugal, Qatar, Romania, Russian Federation, St. Kitts and Nevis, Saudi Arabia, Serbia, Sierra Leone, Singapore, Slovak Republic, Slovenia, Solomon Islands, South Africa, Spain, Sri Lanka, Sudan, Swaziland, Sweden, Switzerland, Taiwan, Tajikistan, Thailand, Trinidad and Tobago, Tunisia, Turkey, Turkmenistan, Tuvalu, Uganda, Ukraine, United States, Uzbekistan, Venezuela, Vietnam, Zambia and Zimbabwe.

Broadly, the tax treaties between the UK and other countries follow the 2010 OECD Model Income and Capital Tax Convention to ensure that profits from the operation of ships arising from international transport will be taxed in the jurisdiction where effective management is situated. There are some exceptions to this, and, in certain circumstances, some treaties confer the exclusive taxing rights on the state of residence and not the place of effective management (if different).

1.4 Freight taxes
Freight taxes do not apply in the UK.

1.5 Special vessel registration benefits for the shipowner
There are no special tax benefits for the shipowner.

2. Human capital

2.1 Formalities for hiring personnel
The UK Equality Act came into effect from October 2010. It offers protection to the same groups that were previously protected by existing equality legislation, protecting against discrimination based on age, disability, gender reassignment, race, religion or belief, sex, sexual orientation, marriage and civil partnership, and pregnancy and maternity. In addition, the act gives additional types of legal protection that were not previously covered by legislation and strengthens aspects of equality law. Policies and procedures for hiring personnel, as well as in other HR activities, that have not been reviewed since this time should therefore be checked to ensure that these are legally compliant.

New employees must be provided with a written statement of employment terms within two months of starting employment. At a minimum, the written statement must include the following:
2.2 Regulations on employing personnel

There is a wide range of laws and regulations governing employment of personnel in the UK. Three areas that may be of particular interest to the shipping industry are outlined below.

Regulation preventing illegal working

Employers have a responsibility to prevent illegal migrants from working in the UK, and there is a system of civil and criminal penalties for employers who hire illegal workers (Immigration, Asylum and Nationality Act 2006).

Employees must be registered for tax and national insurance and must be entitled to work in the UK through, for example, a work permit, passport or citizenship. Employers who knowingly employ an illegal worker will not be able to avoid liability. However, for other employers found to have hired illegal workers, in order to establish a defense, they must request, and individuals must provide, certain original documents to establish their eligibility to undertake the work on offer, before the employment begins. There are two lists of legal documents specified by the Home Office for this purpose: A and B. An individual who is not subject to immigration control, or is not subject to restriction on stay in the UK, should produce documents from list A. All other individuals must provide documents from list B. If an employee provides certain documents from list B, the employer must contact the Home Office regarding his or her right to work and obtain a Positive Verification Notice (PVN). For any employee who produces documents from list B, the employer must carry out follow-up checks (where there is a PVN, within six months of the date of the PVN; and in all other cases, before the permission they have seen expires). Whether documents are produced from list A or list B, the employer must check the validity of the original documents and satisfy itself that the individual is the person named in them by undertaking various validity checks. It must also make and retain copies of the documents.

Employees without a National Insurance number must apply for one immediately upon commencing work, by contacting the National Insurance number application helpline on 0345 600 0643.

Regulations protecting seasonal employees

Traditionally, some seafarers have been employed on a short-term basis, with officers transferring regularly between ships and companies. Employers should be aware that seasonal employees are protected from less favorable treatment than comparable permanent employees under the Fixed-Term Employees (Prevention of

**New employer pension duties**

Laws that came into force on 30 June 2012 require all employers in Great Britain to automatically enroll eligible job holders into a qualifying pension scheme and make minimum mandatory contributions, unless the employee is already an active member of the employer's qualifying scheme. (Employers in Northern Ireland are subject to separate legislation.) The new duties are being formally implemented over 5.5 years, having started on 1 October 2012, with larger employers being affected before smaller employers and new businesses. The Pensions Regulator has published a staging date timeline to confirm the indicative staging dates that will apply for different sizes of employer, although the exact dates will depend on an employer’s PAYE data as at 1 April 2012. As a general guide, the position is as follows:

- More than 250 employees: staging dates between 1 October 2012 and 1 February 2014
- Between 50 and 249 employees: staging dates between 1 April 2014 and 1 April 2015
- Fewer than 50 employees: staging dates between 1 June 2015 and 1 April 2017
- New employers set up between 1 April 2012 and 30 September 2017: staging dates between 1 May 2017 and 1 February 2018.

Employers must comply with detailed requirements to provide information to employees about auto enrollment, including their rights to opt out or join as the case may be. A jobholder will be free to opt out of a scheme once the person has been automatically enrolled. But while the individual remains an active member, the employer is required to pay a minimum level of pension contributions. By default, workers who have opted out will be automatically re-enrolled every three years.

The requirements for minimum contributions will be phased in over two transitional periods spanning six and a half years as follows:

**Agency workers**

The Agency Worker Directive and Regulations 2010 came into force in Great Britain on 1 October 2011.

The agency worker must also be able to access a hirer’s collective facilities and amenities and have access to information about its job vacancies from the first day of his or her assignment. While these regulations do not give an agency worker full employment protection rights, they have created cost implications for businesses using the services of agency workers and certain contractors. Non-statutory guidance on the regulations was published by the Department for Business, Innovation & Skills (BIS) in May 2011. (Separate regulations are in place in Northern Ireland.)

**Gender pay gap reporting**

From autumn 2016, employers with 250 or more employees in the UK will be under an obligation to publish details of their gender pay gap. Full details of the reporting obligations (including what gender pay
Minimum entitlements and procedures

As of 1 October 2015, the following statutory minimum wage rates apply:

- £3.30 per hour for apprentices under 19 (and those aged 19 or over but in the first year of their apprenticeship) (rising to £3.40 from 1 October 2016)
- £3.87 per hour for workers aged 16 to 17 (rising to £4.00 from 1 October 2016)
- £5.30 per hour for workers aged 18 to 20 (rising to £5.55 from 1 October 2016)
- £6.70 per hour for workers aged 21 years and over (rising to £6.95 for workers aged 21 to 24 from 1 October 2016)

The UK government has introduced a new rate of national minimum wage known as the “national living wage” for workers aged 25 and over. This new rate, effective from 1 April 2016, is £7.20 per hour.

Depending on the nature of shipping employees' work, circumstances and duties, their statutory working time and entitlement to annual leave are set out in the Working Time Regulations 1998 and other applicable regulations (e.g., the Merchant Shipping (Hours of Work) Regulations 2002, the Merchant Shipping (Working Time: Inland Waterways) Regulations 2002 (as amended by the Merchant Shipping (Maritime Labour Convention) (Hours of Work) (Amendment) Regulations 2014) (see section 2.4 below), and the Merchant Shipping (Inland Waterway and Limited Coastal Operations) (Boatmasters’ Qualifications and Hours of Work) Regulations 2006). In practice, the statutory working time and annual leave entitlement may be more generously agreed with trade unions and set out in individual employment contracts.

It is best practice for employers to adopt the ACAS (Advisory, Conciliation and Arbitration Service) Code of Practice on disciplinary and grievance procedures (2015). In certain types of claims, an employment tribunal awarding compensation has the power to increase or reduce compensation by up to 25% where either party has unreasonably failed to follow the ACAS Code. Employers should be aware that there is a statutory right for employees to be accompanied at disciplinary and grievance hearings.

2.3 Collective labor agreements

Collective agreements between employers and unions in the UK are generally not legally enforceable between the parties. Nevertheless, employers may incorporate the terms of these agreements into the terms of individual contracts.

2.4 Application of the Merchant Shipping (Working Time: Inland Waterways) Regulations 2002 (as amended by the Merchant Shipping (Maritime Labour Convention) (Hours of Work) (Amendment) Regulations 2014)

The Merchant Shipping (Working Time: Inland Waterways) Regulations 2002 (as amended) offer certain protections in general to workers on ships covered by these regulations, including:

- A maximum of 48 hours working time a week averaged over:
  - A 17-week period
  - A 26-week period in prescribed circumstances (e.g., if there is a foreseeable surge of activity)
  - Such other period up to 52 weeks as may be agreed in a collective agreement
- A 77-hour rest entitlement in every 7-day period
- At least 30 days’ paid annual leave (two and a half days per month) plus a further additional paid leave entitlement of eight days per year
- Opportunity of free health assessment for night workers
2.5 Application of the Merchant Shipping (Maritime Labour Convention) (Minimum Requirements for Seafarers etc.) Regulations 2014

The Merchant Shipping (Maritime Labour Convention) (Minimum Requirements for Seafarers etc.) Regulations 2014 (the Minimum Requirements Regulations) came into force on 7 August 2014 as part of measures to implement the Maritime Labour Convention 2006 (the MLC) in the UK. These Minimum Requirements Regulations apply only to shipowners and other employers of seafarers and, where they apply, amend existing legislation covering the employment of young people, wages and accounts, and repatriation. Further, the Minimum Requirements Regulations introduce new requirements:

- Relating to the use of recruitment and placement services (separate regulations impose obligations on employment agencies and businesses operating in this sector)
- For a seafarer employment agreement to be entered into containing minimum terms
- Relating to repatriation costs

With certain exceptions, the Minimum Requirements Regulations apply to seagoing UK ships, wherever they are, and to seagoing non-UK ships, while in UK waters, if they do not have MLC documentation.

Age restrictions

A person under 16 must not be employed, engaged or work on board a ship, and a seafarer under 18 may not work on board a ship at night.

Restrictions on recruitment and placement services

There are restrictions on the recruitment and placement services a shipowner may engage to recruit a person as a seafarer to work on board a ship. Broadly speaking, the service must either be based in the UK or in a country that has ratified or conforms with MLC minimum standards.

Seafarer employment agreement

A seafarer is entitled to a written seafarer employment agreement in respect of his or her work on board a ship. The required parties and content will vary depending on the circumstances, and there are certain exceptions if the seafarer is on board the ship for the principal purpose of receiving training and the seafarer employment agreement is entered into with the training provider.

All seafarer employment agreements entered into between a shipowner and a seafarer who is an employee must include the following terms (different requirements apply where the parties to the agreement differ):

- The seafarer’s full name, birthplace and date of birth (or age at the time of entering into the agreement)
- The shipowner’s name and address
- The place and date on which the agreement is entered into
- The capacity in which the seafarer will work
- If the agreement is for a definite period, the termination date or, if the agreement is for an indefinite period, the period of notice of termination required and the circumstances in which notice may be given
- If the agreement has been made for a particular voyage, the destination port and the period following arrival after which the agreement terminates
- The health and social security protection benefits to be provided to the seafarer
- The maximum period of service on board following which the seafarer is entitled to repatriation (not exceeding 12 months less the number of days statutory paid leave to which the seafarer is entitled)
- The seafarer’s entitlement to repatriation (including mode of transport and destination)
- Wages (either the amount or the formula to be used in determining them) and the manner in which they must be paid, including payment dates (the first of which must be no more than one month after the date on which the agreement is entered into, with all subsequent dates being no more than one month apart) and the circumstances (if any) in which wages may or must be paid in a different currency
- Hours of work
- Paid leave (either the amount or the formula to be used in determining it)
• Any pension arrangements
• Relevant disciplinary and grievance procedures

The seafarer must have had sufficient opportunity to review and take advice on the terms and conditions of the agreement, must have received an explanation of his or her rights and responsibilities under it, and must be entering into it freely. Before entering into the agreement, the shipowner must take reasonable steps to satisfy itself that these requirements are met, and the agreement must contain a declaration by the shipowner and the seafarer that they have been.

In most circumstances, the minimum notice period that must be given before terminating a seafarer employment agreement is seven days and, if the agreement specifies a longer notice period, the minimum period of notice required from the seafarer must not be longer than the minimum notice from the shipowner. Other minimum requirements

The Minimum Requirements Regulations also include provisions relating to:
• Certain documents to be provided to the seafarer after his or her work on the ship comes to an end
• Interest payable on unpaid wages
• A duty to provide an account of wages
• Repatriation in certain circumstances where the seafarer employment agreement expires or is terminated, and further, provide that breach of certain of the Regulations is a criminal offence

2.6 Treaties relating to social security contributions

Generally, UK-resident or domiciled seafarers working within UK territorial waters must pay Class 1 National Insurance contributions (NICs). Under certain conditions, the mariner may continue to pay Class 1 NICs even when working outside of UK territorial waters. The employer will pay Class 1 NICs if it is based in the UK.

EU social security agreement

Under EU Social Security Regulation 883/2004, a mariner who is an EU national, or certain persons who are legally resident in the EU and employed on board a vessel flying the flag of an EU Member State, will normally fall liable to the social security legislation of that Member State even though he or she may not reside there. Regulation 883/2004 now also applies to Iceland, Liechtenstein, Norway and Switzerland. The UK does not apply Regulation 883/2004 to third-country nationals who are employed on board an EU-flagged vessel. Therefore, they may continue to fall within the previous Regulation 1408/71 or within a reciprocal agreement.

Reciprocal agreements

The UK has reciprocal social security agreements with several non-EU countries, although the terms of the agreements can vary considerably. The majority do not contain special provisions for mariners. Therefore, to determine an individual’s liability or benefit entitlement, it is important to consult the particular agreement relating to the individual’s home country.

To prevent double social security taxes and to assure benefit coverage, the UK has concluded reciprocal agreements with the following countries: Barbados, Bermuda, Canada, Guernsey, Israel, Jamaica, Japan, Jersey; Korea (South), Mauritius, Philippines, Switzerland*, Turkey, United States and Yugoslavia**.

* Effective from 1 June 2002, the EC social security rules apply to Switzerland.

** The UK honours the Yugoslavia treaty with respect to Bosnia-Herzegovina, Croatia***, Serbia and Montenegro, and Macedonia.

*** Effective from 1 July 2013, the EC social security rules apply to Croatia.

2.7 Flying the British flag

In order to fly the British flag, there are three main criteria that must be met. These criteria concern the nationality of the shipowner or bareboat charterer, the manning of the vessel, and a survey requirement.

Eligibility
Eligibility to register a ship in the UK needs to be considered at the outset. Applications may be made by either merchant or pleasure vessel shipowners or bareboat charterers that fall into one of the following categories:

- British citizens
- British-dependent territories citizens
- British citizens living overseas
- Citizens of an EU Member State exercising their rights under Articles 48 or 52 of the EU Treaty in the UK
- Companies incorporated in one of the EEA countries
- Companies incorporated in any British overseas possession that have their principal place of business in the UK or those possessions
- European Economic Interest Grouping

If none of the qualified owners are resident in the UK, a representative must be appointed who is either of the following:

- An individual resident in the UK
- A company incorporated in one of the EEA countries with a place of business in the UK

Manning

An application for each ship over 500 gross tons must be accompanied by a safe manning document (SMDs).

In accordance with the International Convention on Standards of Training, Certification & Watchkeeping (STCW), unless the officers hold UK certificates of competency, certificates of equivalent competency (CEC) will be required to be issued by the Maritime and Coastguard Agency (MCA).

The documents that have to be produced in order for a CEC to be issued include:

- Passport or discharge book
- Non-UK certificate of competency
- Evidence of competency in the English language
- Completed application form from the seafarer
- Valid UK medical certificate

Subject to CECs, there are no nationality restrictions associated with officers or crew sailing on UK vessels except that in the case of strategic ships the master must be a British, British Commonwealth, NATO (North Atlantic Treaty Organization) or EU national or a national of a state that is party to the EEA agreement.

Survey

Every ship must be surveyed before it can be registered. MCA’s general policy is for this survey to be carried out by an MCA surveyor. However, under certain circumstances, arrangements can be made for this survey to be carried out by a class surveyor on behalf of the MCA.

2.8 Offshore manning arrangements in the shipping industry

UK companies that use the personal services of employees of nonresident UK companies are subject to employer NICs, regardless of whether the UK company directly employs the workers. There are, however, special NIC rules in the case of mariners. Where offshore manning companies are used to supply UK-resident shipping companies with UK-resident or UK-domiciled mariners to operate ships, providing the mariners do not wholly or mainly perform their duties in UK waters classified as A, B, C or D, neither the UK shipping company nor the offshore manning company is required to pay NICs. However, shipping companies are liable to NICs if those mariners perform their duties wholly or mainly in UK waters classified as A, B, C or D. Where companies are unsure whether workers have been engaged in A, B, C or D water, they can seek clarification from HMRC.

Category A, B, C and D waters are classified under the Merchant Shipping (Categorisation of Waters) Regulations 1992 and included in the Merchant Shipping Notice 1776 (M).
A non-UK resident manning company that is based within the EEA, providing mariners with EU nationality to a UK shipping company, will be treated as if it had a place of business in the UK, and employer NIC will be payable. The employer will be required to register with HMRC in the UK and have the same obligations as a UK employer. In the event that payment is not made, the EEA country where the non-UK-resident manning company is based will collect employer contributions on behalf of HMRC in the UK. The EC regulations will not, however, apply to non-UK-resident manning companies that are based outside the EEA and employer NIC will continue not to be payable.

From 6 April 2014, new regulations were introduced for certain types of vessels considered to be offshore installations located within the UK Continental Shelf. If so, the offshore manning arrangements no longer apply, and employer Class 1 NICs will be payable by the employer even if the employer is located outside the UK or EU.

The new regulations do not apply to vessels used wholly or mainly for the transport of supplies, as safety vessels or as cable laying vessels. Additionally, vessels that are normally sailing but stop for a while only briefly may also be excluded (e.g., dive support vessels, inspection vessels, construction support vessels and subsea pipelay vessels).

### 3. Corporate structure

#### 3.1 Most commonly used legal structure for shipping activities

The most common legal structure is the limited liability company.

#### 3.2 Taxation of profit distribution

Corporate income tax is charged at the same rate on all profits in the UK, whether distributed or retained. There is no withholding tax on dividends.

### 4. Grants and incentives

#### 4.1 Specific and/or general subsidies available to shipping companies

Government support is generally limited to shipbuilding and training rather than operation. There is, therefore, no direct link between registration and eligibility for support. However, this is subject to comments in section 1 in relation to the UK tonnage tax regime.

**Support for Maritime Training scheme**

The Support for Maritime Training (SMarT) scheme, administered by the Marine Technology Support Unit (MaTSU) on behalf of the MCA, is designed to provide funding for maritime training, principally initial training for cadets studying at a junior officer level.

**Employer NIC reduction**

A reduction of 0.5% is made in employer NICs in respect of seafarers on foreign ships sailing outside Europe in recognition of the health care provided on board these ships.

**Wage cost support**

A foreign earnings deduction provides tax relief on earnings to seafarers working wholly or partly overseas (see section 1.2 above).

#### 4.2 Investment incentives for shipping companies and the shipbuilding industry

The OECD Shipbuilding Agreement removing all shipbuilding subsidies resulted in the end of the Shipbuilding Intervention Fund as well as the Shipbuilding and Ship Repair Innovation and Technology Support initiative.

#### 4.3 Special incentives for environmental awareness
No specific incentives are available to the shipping industry for environmental awareness. However, the Carbon Trust does provide low-rate or interest-free loans to businesses to help develop and implement clean technologies to reduce emissions and enhance environmental sustainability. There may also be tax relief available for the development of clean technologies through the Research and Development scheme.

4.4 **Major changes in shipping subsidy legislation in the near future**

No changes have been noted.

5. **General information**

The DfT has a website at www.dft.gov.uk that can be used to search for, and contains a number of links to other websites that provide, shipping-related information. The shipping area is www.gov.uk/government/policies/maritime-sector.

The MCA website is www.gov.uk/government/organisations/maritime-and-coastguard-agency.

The Marine Society provides information and library services for professional seafarers. Its website is www.ms-sc.org.uk.
1. Tax

1.1 Taxation of international shipping companies

Foreign shipping companies that trade vessels to ports in the United States of America (US) may be taxed on a net basis on income effectively connected with the conduct of a trade or business within the US or, alternatively, may be subject to a tax of 4% on US-sourced gross transportation income under Internal Revenue Code (IRC) §887.

Foreign shipping companies may be exempt from taxation in the US on income derived from the international operation of a ship, provided that they qualify for the benefits of an applicable US tax treaty, reciprocal agreement or domestic law and meet the statutory and regulatory requirements for exemption under IRC §883. International operation of ships is determined on a passenger-by-passenger basis and on an item-of-cargo-by-item-of-cargo basis. Generally, income derived from carriage of a passenger or cargo will be income from the international operation of a ship if the passenger or cargo is carried between a beginning point in the US and an ending point outside the US or vice versa. Carriage of a passenger or item of cargo will be treated as ending at the final destination even if, enroute to the final destination, a stop is made at an intermediate point for refueling, maintenance or other business reasons, provided that the passenger or item of cargo does not change ships at the intermediate point. There are exceptions for items of cargo, and these exceptions generally apply if an item of cargo does not pass through customs.

US corporations engaged in shipping are subject to tax in the US on their worldwide income. For taxable years beginning after 31 December 2004, US parent companies (and other US shareholders) may defer the US tax on unrepatriated shipping income and certain leasing income earned by their foreign subsidiaries. US corporations may qualify for capital construction fund benefits (IRC §7518). This provision allows any US citizen owning or leasing one or more vessels to establish a capital construction fund, with an agreement from the Department of Transportation, for the purpose of providing replacement vessels, additional vessels or reconstructed vessels built in the US and documented as such for operation in the US or for non-contiguous domestic trade. Deposits to this fund may be taken as a deduction from US taxable income, subject to the specific requirements of the IRC. We note that a specific portion of this provision addressing the taxation rate of non-qualified withdrawals changed in 2012.

Effective for taxable years beginning after 22 October 2004, corporations that would otherwise be subject to the normal US corporate income tax may elect an alternative tonnage tax regime for qualifying shipping activities (limited to the operation of US-flagged vessels in US foreign trade and related secondary and incidental activities) (IRC §1352-1359).

This alternate regime tax consists of regular corporate rates applied to the daily notional shipping income multiplied by the number of days of operation of the qualifying vessel. Daily notional shipping income is defined as:

- US$0.40 for each 100 tons of the net tonnage that does not exceed 25,000 net tons
- US$0.20 cents for each 100 tons of the net tonnage that exceeds 25,000 net tons

1.2 Taxation of seafarers

Maintenance and care payments made to hospitalized seafarers and maintenance payments to outpatient seafarers are not wages subject to withholding. The wages of seafarers are not subject to state income tax withholding, only federal income tax withholding.

1.3 Tax treaties and place of effective management

The US has income tax treaties in force with 68 foreign countries as from 1 January 2016. Additionally, the US has 39 reciprocal tax exemption agreements for international shipping in force as from 1 January 2016. The main issues in the tax treaties follow the Organisation for Economic Co-operation and Development
(OECD) model, while some contain flag restrictions. Many contain limitations on benefits articles that look to ultimate beneficial ownership in order to limit treaty shopping. Generally, effective management is not an issue.

Treaties are with the following countries:
Australia, Austria, Bangladesh, Barbados, Belgium, Bulgaria, Canada, China, Cyprus, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Jamaica, Japan, Kazakhstan, Korea (South), Latvia, Lithuania, Luxembourg, Malta, Mexico, Morocco, Netherlands, New Zealand, Norway, Pakistan, Philippines, Poland, Portugal, Romania, Russian Federation, Slovak Republic, Slovenia, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Thailand, Trinidad and Tobago, Tunisia, Turkey, Ukraine, USSR, United Kingdom and Venezuela.

The US and Chile signed their first income tax treaty in February 2010. It includes a general limitation-on-benefits provision and reductions in withholding rates. As of 31 December 2015, the proposed treaty had not yet received US Senate advice and consent to ratification.

1.4 Freight taxes
Freight taxes do not apply per se, but there is a 4% gross income tax on US-source gross transportation income. This tax may generally be eliminated by treaty or statutory exemption (see section 1.1). In addition, the US imposes a harbor maintenance tax on certain cargo unloaded in a US port on an ad valorem basis (currently 0.125% of the cargo’s value) (IRC §4461). Previous court decisions have limited the scope of the harbor maintenance tax, and there have been multiple proposals to amend both the scope and rate of the tax.

1.5 Special vessel registration tax benefits for the shipowner
US-flagged vessels can qualify for a 10-year depreciable life (i.e., cost recovery period), whereas foreign-flagged vessels have an 18-year depreciable life. In addition, only US-flagged vessels qualify for the elective tonnage tax regime (see section 1.1). There are no other special tax benefits for US-registered vessels (aside from the subsidies limited to US-flagged vessels discussed in section 4).

1.6 Recent changes to tax law
In 2015, the US government has reached several agreements in principal with Cuba that allows for commercial airlines and vessels to transport people and cargo between the US and Cuba. However, there are many restrictions still in place and generally a trade embargo is still in effect. We expect that there will be further agreements put in place that will provide for free trade over the next several years.

2. Human capital

2.1 Formalities for hiring personnel
Besides compliance with the labor laws of the US, the US Coast Guard requires pre-employment drug tests for any personnel in “safety-sensitive” positions as part of the Drug and Alcohol Prevention Program.

2.2 National labor law
US labor laws apply to crew members of all US-flagged vessels.

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1 On 24 January 2013, the United States and Japan signed a new income tax protocol that would amend the existing treaty between the countries. As of 31 December 2015, the proposed protocol had not yet received US Senate advice and consent to ratification.

2 On 13 February 2013, the US and Poland signed a new income tax treaty, replacing the 1974 treaty. As of 31 December 2015, the proposed treaty had not received US Senate advice and consent to ratification.

3 The US Department of Treasury has announced that the income tax treaty between the United States and the USSR, which was signed on 20 June 1973, continues to apply to the former republics of the USSR, including Armenia, Azerbaijan, Belarus, Georgia, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan and Uzbekistan, until the United States enters into tax treaties with these countries. The United States has entered into tax treaties with Estonia, Kazakhstan, Latvia, Lithuania, the Russian Federation and Ukraine.
2.3 Regulations on employing personnel
The US has recently enacted stricter immigration regulations for foreigners working in the country or on board US-flagged vessels.

2.4 Collective labor agreements
Collective bargaining agreements differ among employers.

2.5 Treaties relating to social security contributions
The US has social security totalization agreements in force with 25 countries as from 1 January 2015. These totalization agreements have two main purposes. First, they eliminate social security taxation, the situation that occurs when a worker from one country works in another country and is required to pay social security taxes to both countries on the same earnings. Second, the agreements help fill gaps in benefit protection for workers who divide their careers between the US and another country.

<table>
<thead>
<tr>
<th>Countries with social security agreements with the United States</th>
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<tr>
<td><strong>Country</strong></td>
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</table>

2.6 Manning issues with flying the US flag
Due to manning requirements and labor laws, it is generally more expensive to man US-flagged vessels.
2.7 Health care coverage for shipboard employees
The US has recently enacted a broad new health care law that may affect health insurance coverage requirements for certain shipboard employees.

3. Corporate structure

3.1 Most commonly used legal structures for shipping activities
A corporation is the most commonly used legal structure for shipping activities. US corporations are subject to a top tax rate of 35% of taxable (net) income. Foreign shipping companies are typically subject to a 4% tax on US-sourced gross transportation income in the absence of an applicable exemption. However, foreign shipping companies that do not qualify for an exemption and operate vessels that trade with the US on a regular schedule (e.g., liner companies) may be subject to regular corporate income and branch tax at rates in excess of 50%.

3.2 Taxation of profit distribution
Profits can generally only be distributed free of tax within a consolidated group of companies. Profits distributed outside of a consolidated group of companies may be eligible for a dividends received deduction. Dividends paid by a US corporation to a foreign shareholder are generally subject to a 30% withholding tax; this rate may be reduced by treaty.

4. Grants and incentives

4.1 Specific and/or general subsidies available for shipping companies
There are several subsidies available, including:

- Capital construction fund (see section 1.1)
- Construction reserve fund - this program provides tax deferral benefits to US-flag operators. Eligible parties can defer the gain attributable to the sale or loss of a vessel, provided the proceeds are used to expand or modernize the US merchant fleet.
- Federal Ship Financing Program (also known as Title XI) - this program provides US government-guaranteed loans to be used to construct, reconstruct or recondition commercial vessels in US shipyards. The vessels must be either:
  - For domestic use and US-owned and flagged
  Or
  - For export and documented under the laws of a country other than the US
- Assorted subsidies for certain cargo (generally only applies to US-flagged ships)
Qualifications, restrictions and limits apply to each subsidy program and are subject to change.

4.2 Investment incentives for shipping companies and the shipbuilding industry
The Title XI financing program described above is intended to promote the use of US shipyards. It applies to vessels constructed or reconditioned in the US (although foreign components may be used), whether for domestic use or export.

4.3 Special incentives for environmental awareness
There are no special incentives for environmental awareness.

4.4 Issues with flying the US flag
Some subsidy programs will only apply to US-flagged ships.

4.5 Major changes in shipping subsidy legislation in the near future
No major changes are expected.

5. General information

5.1 Infrastructure

5.1.1 Major ports

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<td>Port of South Louisiana</td>
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<tr>
<td>Texas City</td>
<td>Texas</td>
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</table>

5.1.2 Port facilities

The following facilities are available:

- Maintenance and repair
- Docking
- Storage
- Cranes for every size of vessel

5.1.3 Support services for the shipping industry

The following support services for the shipping industry are readily available:

- Banks with a shipping desk
- Consulting firms specializing in shipping
- Maritime law services
- Insurance brokers for the shipping industry

5.1.4 Maritime education

Major maritime educational institutions include:

- California Maritime Academy (Vallejo)
- Maine Maritime Academy (Castine)
- Massachusetts Maritime Academy (Buzzards Bay)
- Northwestern Michigan College - Great Lakes Maritime (Traverse City)
- State University of New York Maritime College (New York)
- United States Merchant Marine Academy (Kings Point)
5.2 Safety and environmental issues

5.2.1 Implementation of the International Safety Management Code on board vessels
The US has implemented all requirements of Chapter IX of the International Convention for the Safety of Life at Sea (1974), and US shipping companies are generally in compliance with Phases I and II of the International Safety Management (ISM) Code. Since 1 January 2002, the US Coast Guard has required that all applicable vessels provide their ISM Code certificate information prior to their arrival at US ports.

5.2.2 Safety rules regarding manning
All US Coast Guard regulations regarding safety and manning must be followed. These regulations are relatively strict.

5.2.3 Special regulations on safety and the environment
There are numerous environmental and conservation regulations that may be relevant to shipping companies, including but not limited to the Oil Pollution Act of 1990 (OPA); Oil Terminal and Oil Tanker Environmental Oversight and Monitoring Act of 1990; Port and Tanker Safety Act of 1978; Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA); Ocean Pollution Reduction Act; Federal Water Pollution Control Act; Federal Clean Air Act; Protection of Navigable Waters and of Harbor and River Improvements; Aquatic Nuisance Prevention and Control; Prevention of Unintentional Introductions of Non-indigenous Aquatic Species and Hazardous Materials Transportation Act.

5.3 Registration

5.3.1 Registration requirements
The owner of the vessel must be a US corporation or entity. For coastwise vessels, the entity must be 75% owned by US citizens, and generally, the ship must be built in the US.

5.3.2 Ship registration procedure
Vessel documentation is processed by the US Coast Guard, which provides a standard set of forms that must be completed in order for registration to be accomplished.

5.3.3 Parallel registration
There is no possibility of parallel registration.

5.3.4 Requirements for the officers and crew serving on vessels
All officers and licensed individuals must be US citizens.

5.3.5 International conventions regarding registration
There are no conventions of which we are currently aware.

5.3.6 Special requirements/rules relating to registration
There are some special requirements and rules with regard to ship registration. Contact the US Coast Guard for details.

5.4 General comments
For national security purposes, the Department of Homeland Security (Customs and Border Protection (CBP) and Transportation Security Administration (TSA) ) administers programs to improve the inspection of inbound cargo, requiring the implementation and documentation of certain cargo security measures for all US-bound vessels and cargo (e.g., Customs-Trade Partnership Against Terrorism, C-TPAT) . In addition CBP requires certain cargo manifest data elements be submitted for cargo examination selectivity 24 hours prior to the arrival of a vessel. Failure to qualify for these programs or meet these requirements may subject cargo to additional customs inspections and delays.
## EY global shipping industry network

<table>
<thead>
<tr>
<th>Contact, Service Line</th>
<th>Telephone</th>
<th>e-mail</th>
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### Chile

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### Curacao

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<tr>
<td>Stelios Demetriou, Transactions</td>
<td>+357 2220 9746</td>
<td><a href="mailto:stelios.demetriou@cy.ey.com">stelios.demetriou@cy.ey.com</a></td>
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<tr>
<td>Stavros Pantzaris, Assurance</td>
<td>+357 2220 9999</td>
<td><a href="mailto:stavros.pantzaris@cy.ey.com">stavros.pantzaris@cy.ey.com</a></td>
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<tr>
<td>Philipppos Raptopoulos, Tax</td>
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<tr>
<td>Henrik Arhnung, Tax</td>
<td>+45 5158 2773</td>
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<tr>
<td>Bjarne.Gimsing, Tax</td>
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<td>Christian S. Johansen, Assurance</td>
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<tr>
<td>Jesper Ridder Olsen, Assurance</td>
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<tr>
<td>Ludovino Colon</td>
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<td><a href="mailto:ludovino.colon@do.ey.com">ludovino.colon@do.ey.com</a></td>
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<tr>
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<td>Maylen Guerrero Pimentel</td>
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<tr>
<td>Juan Carlos Villegas Núñez</td>
<td>Transactions</td>
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<td>Ehab Azer</td>
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<tr>
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<tr>
<td>Nabil Istanbouli</td>
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<td>Markku Järvenoja</td>
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<td>Eeva Koivula</td>
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<td>Philippe Paul-Boncour</td>
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<td>Michael Chourdakis</td>
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<tr>
<td>Stefanos Mitsios</td>
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<td>Leo Chan, Assurance</td>
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<tr>
<td>Jacky Lai, Assurance</td>
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<td>Michael KK Ma, Advisory</td>
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<td>Jo An Yee, Tax</td>
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## India

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<td>Abhaya Agarwal, Transactions</td>
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<td>Himanshu Doshi, Tax</td>
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<td>Samir Kanabar, Tax</td>
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<td>Janak Kapadia, Tax</td>
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<td>Hemal Shah, Assurance</td>
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<td>Sushi Shyamal, Transactions</td>
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<td>N. Albert Wangsasaputra, Tax</td>
<td>+62 21 5289 5265 <a href="mailto:nathanael.albert@id.ey.com">nathanael.albert@id.ey.com</a></td>
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<td>David Rimbo, Transactions</td>
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<tr>
<td>Benyanto Suherman, Assurance</td>
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<td>Sandra Dawson, Tax</td>
<td>+353 12 212 454 <a href="mailto:sandra.dawson@ie.ey.com">sandra.dawson@ie.ey.com</a></td>
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<tr>
<td>John McCormack, Assurance</td>
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<tr>
<td>Michael Moroney, Tax</td>
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<td>Paul Duffy, Assurance</td>
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<tr>
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<td>Alon Lugassi, Advisory</td>
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<td>Giacomo Albano, Tax</td>
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<td>Donato Ferri, Advisory</td>
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