IRISH TONNAGE TAX

OPPORTUNITIES FOR THE INTERNATIONAL SHIPPING INDUSTRY

pwc

Irish Maritime Development Office

IMDOIreland

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Irish Tonnage Tax: Opportunities for the International Shipping Industry is an important report prepared by international tax experts PwC. The report examines the efficacy of Ireland's Tonnage Tax arrangements, which are compared and contrasted with those of other jurisdictions. The report finds that Ireland offers a range of advantages to companies involved in shipping and maritime commerce. In addition to the comparative advantages offered by the Irish Tonnage Tax regime, the report identifies many other benefits for shipping groups when it comes to operating and investing in Ireland

» Ireland is a world class location for leasing assets and has specialised in leasing in the aircraft industry. The leasing structures used in this industry and in other industries create opportunities for shipping groups as they consider how to finance and expand their fleets.

» Ireland is an attractive location for a regional or global holding company as evidenced by the many multinational groups, from a variety of industry backgrounds that have established operations here.

» Ireland is recognised by Forbes (2013) as the "Best Country for Business" and ranked first in the world for "Inward Investment by Quality and Value" in IBM's Global Location Trends Report (2013).

» More broadly, Ireland offers a stable and secure business environment, a highly talented and well-educated workforce and a competitive edge that resulted in Ireland being ranked first for investment incentives in the IMD World Competitiveness Yearbook (2014).

When these advantages are considered in conjunction with the emphasis that the Irish Government places on the development of the maritime industry in its *Harnessing our Ocean Wealth* initiative , a compelling case is made for Ireland as a centre for maritime commerce.

I am pleased, as the Director of the Irish Maritime Development Office to introduce this publication, which provides independent validation of Ireland's status as a world class location in which to conduct business and more particularly, sets Ireland apart as a hub for maritime commerce. I commend the publication to decision makers and business leaders in the maritime industry and trust that you will find it interesting and relevant.

I trust that this report is of interest to you.

Liam Lacey.

Liam Lacey,
Director
Irish Maritime Development Office

The IMDO is the Irish government agency which provides support to maritime businesses to help you grow and develop in the Irish market. It is the aim of the IMDO to be the focal point for maritime commerce in Ireland, to act as a one stop shop for all your business needs and to help you take advantage of the competitive corporate initiatives which Ireland has to offer.

The Irish tonnage tax regime is based on the tonnage of the vessel, which coupled with a 12.5% corporate tax rate on fixed profits, means a low effective tax rate. Ireland is a politically stable, English speaking Eurozone member state, our beneficial tonnage tax regime is yet another reason to establish a maritime operation in the Irish market.

The IMDO offers a wide ranging consultative service, providing a bespoke solution to meet your company's needs and to ease your transition in entering the market. Our services include:

» Access to free and impartial advice

» Matching your requirements to local professional services firms

» Planning and organisation of country visit programmes

» Up to date maritime economic research and analysis

» Introduction to key contacts in the Irish market

This is a great time to be part of the maritime sector in Ireland, in addition to senior level Government backing for the development of the sector, we eagerly anticipate the commencement of work on the International Shipping Services Centre (ISSC) project, a dedicated centre of shipping excellence in the heart of Dublin. The ISSC seeks to attract 5% of the global shipping market to Ireland, directly creating 3,500 jobs. The IMDO is fully supportive of this project which will place Ireland on the world map as a global hub for maritime commerce.

If you would like to learn more about the opportunities available in the Irish market for your company, please contact me on
+ 353 775 3918
or email rebecca.wardell@imdo.ie .

I look forward to speaking with you soon.

Rebecca Wardell,
Business Development Manager
Irish Maritime Development Office

1.0

EXECUTIVE SUMMARY

1.0

1.1 BRIEF OVERVIEW

We are living in an increasingly globalised world, where cargo and goods are transported daily across the world's oceans. About 90% of world trade is carried by the international shipping industry, but over the past number of years, the shipping industry like many other industries, has suffered, due to the economic downturn. The changes in economic circumstances have forced companies to take a critical look at how their business is structured and this is no different in the shipping industry. Many large shipping groups are looking at where they locate certain activities within their business to maximise returns, and Ireland is increasingly winning this type of business. Ireland has a proven track record as a free and open economy, with an excellent talent pool, an attractive tax rate and consistently ranks high in the world as one of the best places to do business. It is not only a location that is used by multinational groups as a gateway to Europe (member of the EU, OECD and Eurozone) but more and more as a single international hub location.

Ireland has long been regarded as a centre of excellence for the aviation leasing and finance industry. Currently Ireland is home to 9 of the 10 largest aircraft leasing companies in the world and it is estimated that circa 50% of the entire global fleet of leased aircraft is managed in Ireland. It is not just the aviation industry that is wise to the advantages of locating businesses in Ireland; the pharma, social media and IT industries are also thriving in Ireland, with all of the top 10 'born on the internet' companies located here (including Twitter, Facebook, Google, etc.), 16 of the world's top 20 pharma companies and 9 of the top 10 ICT/software companies located here. So what is it that contributes to Ireland's phenomenal success? Ireland is uniquely placed at the edge of Europe. As an English speaking country in the Eurozone and as a member of the OECD, Ireland is a favourable "onshore" location with a key geographical position between mainland Europe and the United States of America.

To complement the success Ireland has had as an international aviation hub and financial services centre of excellence, the Irish government is supportive of the development of a shipping services centre in Dublin. It is envisaged that the International Shipping Services Centre (ISSC) will become a prime location for ship owners and operators, shipping finance, leasing, and specialist maritime services, including securitising and listing.

The purpose of this report is to highlight, not just the benefits of the Irish tonnage tax regime and how it compares to other tonnage tax regimes in key shipping territories, but also, other tax efficient opportunities Ireland has to offer, and how shipping companies can structure their groups to maximise the favourable Irish tax regime and achieve a high rate of return on their investments.

1.2 SUMMARY OF FINDINGS

Ireland is a key global centre for international business and is a tried and tested location for foreign direct investment. Ireland's track record is excellent and the combination of the business and legal environment, availability of skilled workforce, competitive tax regime and wide double tax treaty network continue to make Ireland a very attractive location for international business.

Ireland's tonnage tax regime compares well with the tonnage tax regimes of UK, Netherlands, Germany, Norway, Denmark, Greece, Japan and US. In particular the following areas are what make the Irish regime attractive:

» The Irish tonnage tax is a nominal tax based on the tonnage of the vessel. Aligned with Ireland's corporate tax rate, the Irish tonnage tax is calculated at 12.5%.This results in a very low effective rate of tax.

» The Irish tonnage tax regime is flag blind.

» The Irish tonnage tax regime does not require a vessel to be placed on the Irish register of ships.

» There is no obligation to provide training berths under the Irish tonnage tax regime.

» There is an extremely wide definition of 'relevant shipping income' which is exempt from regular taxation and covered by the tonnage tax regime. Income from ship management services is also included in Ireland's regime but is excluded in other regimes. There is a broad difference in qualifying activities in the regimes with Ireland at the more favourable end of the spectrum.

» Foreign exchange and other financial gains associated with the shipping business are included in the regime.

» Full exemption from capital gains tax on any gains arising on qualifying ships.

» Financing into the tonnage tax company is not restricted.

» Under the Irish tonnage tax regime there is normally no exit charge where a company leaves the regime by ceasing to carry on shipping operations within the jurisdiction.

While the tonnage tax regime is very attractive, there are many other opportunities for shipping groups when it comes to operating/investing in Ireland. Ireland is a world class location for leasing assets, in particular aircraft leasing, and there are many tax efficient leasing structures used widely by other industries which may be beneficial for shipping groups as they consider establishing operations in Ireland.

Ireland is also a favourable location for a regional or global holding company and for group services and industry support services. Many multinational groups in other industries establish service operations in Ireland, e.g. group treasury functions, shared services, etc. due to the expertise in this area.

2.0

WHY IRELAND

2.0

2.1 OVERVIEW

With over 1,100 foreign direct investment companies here, Ireland continues to be one of the most favoured global locations for investment. In 2013, Ireland secured 164 new investments and over 13,300 new jobs were created by foreign direct investment companies.

Year after year Ireland has seen continued growth and stability, following a severe global downturn. In fact, Ireland has been recognised internationally for being the first country to successfully exit recent bailout programmes and return to financial sovereignty. The upturn trend continues in 2014.

Ireland has not only an excellent business track record; it also has a highly skilled workforce and a supportive tax environment, with beneficial tax incentives. Ireland has been successful in doing this, by focusing on tax, talent, keeping costs competitive and proving to multinational companies that Ireland is serious about attracting inward investment. Ireland is open for business.

NO.1
IRELAND IS RANKED THE 'BEST COUNTRY FOR BUSINESS' GLOBALLY[1]

NO.1
IN THE WORLD FOR INWARD INVESTMENT BY QUALITY AND VALUE[2]

NO.1
IN EUROPE FOR EASE OF PAYING TAXES[3]

1. Forbes 2013
2. IBM 2013 Global Location Trends Report
3. Global Innovation Index, 2013

2.2 BUSINESS ENVIRONMENT

Ireland is a key global centre for international business. As a tried and tested onshore location, Ireland is a longstanding member of the EU, OECD and Eurozone. The country has a proven track record for multinational companies and is a free and open economy. Ireland has received numerous business accolades including 1st in the world for "best place to do business" (Forbes 2013) and for three years in a row, 1st for "best country to invest" in Western Europe (Site Selection 2013).

Doing business in Ireland couldn't be simpler and getting started is both quick and straightforward.

2.3 TALENT

Ireland's workforce is well-educated and one of the youngest in Europe. Ireland has a proven track record and experience in helping multinationals to grow and expand. Favourable demographics and consistent investment in education ensure a plentiful supply of highly qualified workers with excellent technical, language and customer services capabilities, as well as a reputation for flexibility and innovation. Ireland is also renowned for attracting talent from the EU and beyond.

OUR TALENT SCORECARD...

1ST
FOR AVAILABILITY OF SKILLED LABOUR[4]

1ST
FOR FLEXIBILITY AND ADAPTABILITY OF WORKFORCE[4]

1ST
FOR ATTITUDES TO GLOBALIZATION[4]

1ST
IN EU FOR FINANCE SKILLS[5]

50%
OF WORKFORCE UNDER 35 YEARS OF AGE[6]

4. IMD World Competitiveness Yearbook, 2014
5. Global Innovation Index, 2013
6. IDA Ireland, 2014

2.4 TAX

Ireland's tax regime is one of the most favourable in the world. This is strengthened by the government's long term commitment to the 12.5% corporate tax rate, one of the lowest statutory corporate tax rates in the world. In the Global Innovation Index 2013, Ireland is ranked 1st for ease of paying taxes in Europe.

Companies that have chosen Ireland as their European or international base have been able to maximise Ireland's favourable tax regime to achieve a high rate of return on their investment. Manageable transfer pricing rules allied to favourable provisions for IP exploitation, R&D activities, holding companies (see section 6) and the absence of thin capitalisation and controlled foreign company rules, make Ireland's tax regime world class and offer unrivalled opportunities to foreign investors.

IRISH TONNAGE TAX REGIME

Ireland has a special tax regime for shipping operations known as the tonnage tax regime. Tonnage tax is an alternative method of taxing qualifying shipping companies by reference to the tonnage of the ships. The standard corporate tax rate of 12.5% is then applied to this computed profit. Please see section 3 for further details.

CONTROLLED FOREIGN COMPANIES (CFC)

CFC rules refer to rules which generally apply immediate taxation in the parent company location on profits of foreign subsidiaries prior to any repatriation of profits to the parent company. Unlike some other territories, Ireland does not have any CFC legislation.

THIN CAPITALISATION

Thin capitalisation rules generally refer to limitations on deductibility of interest for tax purposes based on debt: equity ratio. Ireland does not impose any debt: equity limitations on companies resident in Ireland.

FAVOURABLE HOLDING COMPANY AND SERVICE COMPANY LOCATION

Ireland has developed a reputation as a key location for the establishment of both EU and international holding companies. As an English speaking, onshore, EU jurisdiction, Ireland is well placed geographically for conducting business in North America, Europe and Asia together in one working day. Ireland also offers a favourable tax regime for holding companies. The benefits of Irish holding companies and Irish services companies are outlined in more detail in section 6 and section 7 of this report.

2.5 IRELAND'S DOUBLE TAX TREATY NETWORK

The combination of Ireland's domestic tax regime combined with an excellent and growing tax treaty network and also access to EU tax directives means that Ireland is the ideal regional hub or headquarters location for international business.

The Irish tax treaty network continues to grow and expand. Ireland has signed double taxation agreements with 68 jurisdictions all of which are in force. There are four more treaties awaiting ratification (Botswana, Morocco, Thailand, and Ukraine) and treaties with Azerbaijan, Jordan, Ethiopia and Turkmenistan are waiting ratification.

The agreements cover direct taxes, which for Ireland encompasses income tax, corporation tax and capital gains tax. The full list of countries with which Ireland has a double tax treaty (as of September 2014) is outlined in Appendix B.

Where a double taxation agreement does not exist, there are provisions within Irish tax legislation which allow unilateral credit relief against Irish tax, for tax paid in the other country in respect of certain types of income (e.g. dividends, interest, royalties and leasing income). There is also legislation implementing the EU "Parent-Subsidiaries Directive" (90/435/EEC), and the EU "Mergers Directive" (90/434/EEC).

In most Irish treaties, profits of an enterprise from the operation of ships are taxable only in the territory of residence of the company. In several treaties the profits are extended to include income from the charter of ships in international traffic. This means that shipping profits of an Irish tax resident company which are subject to tax in Ireland under the tonnage tax regime or under normal taxation should not also be subject to tax in those other treaty territories.

2.6 COST COMPETITIVENESS

Costs in property, rents, services, construction and labour in Irish cities are lower than many other European cities, making Ireland an increasingly attractive investment location. The availability of business incentives and grants also adds to Ireland's competitiveness. The increased cost competitiveness of recent years combined with the fact that Ireland currently has one of the lowest inflation rates in the EU adds to the attraction of Ireland as a location for business. Ireland was also ranked 1st for investment incentives in the recent IMD World Competitive Yearbook, 2014.

2.7 PROFILE OF INVESTORS IN IRELAND

Ireland has attracted and continues to attract well-known global companies as well as emerging companies from a wide variety of sectors, including ICT, pharma and life sciences, financial services and more recently social media and online gaming. In addition to manufacturing, some of the activities that are regularly performed here include: sales and leasing, IP management, shared services, finance/treasury, operational headquarters and holding companies.

Ireland is a major global financial services centre and is recognised as a leading location for a range of internationally traded financial services, including banking, asset financing, fund management, corporate treasury management, investment management, custody and administration and specialised insurance operations. A sophisticated support network, including shared services centres, software development, and legal and accountancy companies, has also developed around the financial services sector in Ireland.

Linked to the financial services sector, Ireland is also regarded as a centre of excellence for leasing assets, in particular for the aircraft industry. In section 5, we have outlined opportunities for the shipping sector in this space.

2.8 IRELAND IN A GLOBAL CONTEXT FOR FDI

Criteria	Ireland	Luxembourg	Netherlands	Switzerland	UK
Statutory tax rate	12.5%	29%	25%	22%	21%
R&D tax credit	25% tax credit (refundable)	-	Enhanced deductions only	-	10%
EU & Eurozone member	Yes	Yes	Yes	No	No
English speaking & common law	Yes	No	No	No	Yes
Availability of skilled labour (IMD. 2014)	1st	47th	4th	10th	21st
Flexibility and adaptability of workforce (IMD, 2014)	1st	49th	25th	20th	30th
Best county for doing business (Forbes, 2013)	1st	21st	10th	16th	12th
"The Good Country Index" (2014)	1st	16st	4th	3rd	7th
Ease of paying taxes (World Bank, 2014)	6th	15th	28th	16th	14th
Protection for investors (World Bank, 2014)	6th	128th	115th	170th	10th
Ease of starting a business (World Bank, 2014)	15th	60th	28th	29th	10th
Annual office space cost per sq ft (Cushman & Wakefield 2014)	$38 (Dublin)	$86 (Lux. City)	$55 (Amsterdam)	$79 (Zurich)	$95 (London City)

3.0

UNDERSTANDING THE IRISH TONNAGE TAX REGIME

3.0

3.1 BRIEF OVERVIEW

Tonnage tax is an alternative method for shipping companies of calculating taxable profits. It is designed to ensure that shipping businesses located in Ireland pay tax on a notional 'profit' (based on the tonnage of the vessels) instead of on the actual profits of the business. Other non-qualifying profits of a tonnage tax company are taxable in the normal way, see section 3.5.

The main benefits of the Irish tonnage tax regime are as follows:

» Nominal taxation on notional profits.

» Certainty for companies and a low effective rate of tax.

» No obligation to register ships in Ireland.

» The Irish tonnage tax regime is flag blind.

» Ship management companies also qualify.

» No capital gains tax on shipping assets.

» Permanent reduction in tax liability, not a deferral.

» Wide range of profits covered and exempt from regular taxation.

» No obligation to provide training berths.

» Up to 75% of the fleet's tonnage may be chartered in.

3.2 FEATURES OF THE REGIME

Certainty, since the level of tax is known. This reduces the need for a company to make provision in its accounts for deferred taxation, thereby increasing earnings per share.

Flexibility, as companies have more freedom to choose when to trade ships and secure finance. These decisions can then be determined by commercial rather than tax considerations.

Clarity, a company's tax position is more readily understood. Consequently, a company may become more attractive to investors and potential business partners.

Compatibility and competitiveness with the fiscal regimes of other countries. This is particularly important from the point of view of maintaining and developing Ireland's indigenous shipping industry.

3.3 CONDITIONS FOR THE REGIME

There are three main requirements for the regime to apply.

[a] The *'strategic and commercial management'* of operating the ships must be carried on from Ireland. This is a common requirement for European tonnage tax regimes. It means an Irish physical presence is required. A wide variety of activities is expected to be covered by the term strategic and commercial management. The Revenue Commissioners have issued guidance which is outlined below. This guidance should not be viewed as the law or limits set on what activities qualify but a consideration of relevant factors. The guidance may suggest the requirements are onerous but as noted earlier a wide variety of activities are expected to satisfy this test and where there may be doubt regarding a particular activity it would be appropriate to explore the activity with Irish Revenue to obtain agreement.

The IMDO has experience of liaising with the Irish Revenue Commissioners on particular activities and will be able to advise and assist you as to the requirements of 'strategic and commercial management' as required by the Irish Revenue Commissioners.

STRATEGIC MANAGEMENT

The guidance from the Revenue Commissioners states that it is important that decisions in respect of significant capital expenditure, capital disposals, award of major contracts and agreement on strategic alliances are made from Ireland (though ship management services will not involve capital transactions). The location of the business headquarters (including senior management), directors' meetings and operational meetings are relevant considerations in this regard. The extent to which non-Irish based personnel report to and act under the direction of Irish based personnel is also important.

COMMERCIAL MANAGEMENT

The guidance from the Revenue Commissioners also states that on a day-to-day level, decisions regarding route planning, cargo/passenger bookings, bunker management, personnel management, victualing, and training/ technical management (including the taking of decisions on the repair / maintenance of vessels) should be taken from Ireland. Also relevant might be the location of the support facilities such as training centres, terminals, etc. in Ireland. The fact that a ship is flagged, classed, insured, or financed in Ireland may add further weight to the indicators set out above.

The more elements that are carried out in Ireland, the more likely it is that the company will be accepted as satisfying the 'strategic and commercial management' test. Greater weight is likely to be given to higher levels of decision making and management, as opposed to routine day-to-day management. However, it is recognised that in the context of a worldwide shipping operation many of the lower level of activities will be devolved to local branches. For an international group the extent to which activities in Ireland correspond to Ireland's share of the worldwide fleet is likely to be a relevant factor.

[b] That company must carry on a business of operating ships. A company will be treated as **operating ships** if it either:

- owns ships
- charters in ships (a joint charter in of a ship is sufficient but a part-charter in of a ship is not)
- manages ships

There is a further requirement that not more than 75% of the net tonnage of the qualifying fleet can be chartered in and operated by qualifying companies, unless done so on bareboat charter terms. Ships chartered in on bareboat charter terms qualify without restriction in the same way as ships owned by the company.

Any ship chartered out on bareboat charter terms is not treated as being operated by the company unless (a) it is chartered out to a related Irish tonnage tax company, or (b) the charter out is by reason of short-term overcapacity and the term of the charter does not exceed three years.

[c] The shipping business must be carried on by a company. It is not necessary for that company to be Irish incorporated. However the company must be either (a) Irish tax resident, or (b) operate the shipping business through an Irish branch.

3.4 HOW IS IRISH TAX CALCULATED?

The company will be subject to Irish corporation tax at the rate of 12.5%. However, instead of paying 12.5% tax on its actual profits, it will pay 12.5% tax on 'notional profits' based on the net tonnage of its ships. Only the 'relevant shipping profits' can be taxed on this 'notional profits' basis, any other activity of the company is taxed in the normal way.

Each ship's 'notional profit' is calculated on the following basis:

NET TONNAGE OF EACH SHIP	NOTIONAL (TAXABLE) PROFITS
For each 100 tons up to 1,000 tons:	€1 per day
For each 100 tons between 1,000 tons and 10,000 tons:	€0.75 per day
For each 100 tons between 10,000 and 25,000 tons:	€0.50 per day
For each 100 tons over 25,000 tons:	€0.25 per day

For example, the following vessels will have an annual Irish tax liability as set out below:

VESSEL	IRISH TAX LIABILITY
4,500 Net Tons	€1,654 per year
19,500 Net Tons	€5,703 per year
45,000 Net Tons	€9,240 per year
188,000 Net Tons	€25,550 per year

POINTS TO NOTE:

» The notional profit per ship is based on the number of days the ship was operated in the accounting period by the company.

» This is a set tax which applies on the same basis each year. It is still payable if actual losses are incurred in any particular year.

» No tax deductions are available for any depreciation, capital allowances or attributable financing costs.

» Losses carried forward from any period before entry into the tonnage tax regime cannot be used to reduce notional tonnage tax profits. Such losses are therefore effectively extinguished. In a similar manner other corporation tax reliefs (for example, renewable energy) are not available. Also, tax credits (including foreign tax credits) are not available to reduce the corporation tax payable by a company to the extent that the corporation tax is referable to tonnage tax profits.

3.5 WHAT ACTIVITIES AND PROFITS QUALIFY FOR THE REGIME?

Profits arising from various categories of activities qualify for the tonnage tax regime. Profits from these categories are replaced by a tonnage tax profit and are, as a result, largely sheltered from Irish tax. Any profits falling outside of these categories are taxed under the normal Irish rules (trading income is taxed at 12.5% and investment income is taxed at 25%).

INCOME FROM OPERATION OF SHIPS

The regime covers income from operating ships. Specifically, it applies to the following sources of income:

» passenger/cargo carriage,

» towage, salvage and marine assistance (other than port work),

» the provision of on-board goods and services which are ancillary to the transport of cargo and passengers where they are consumed on-board the qualifying ship (e.g. bar, restaurant, cinema, etc.),

» granting of rights/contracting out to specialist operators of on-board services noted above,

» other transportation services provided by ships (such as transportation for cable laying activities),

» ship-related activities necessary and integral to the business of operating ships (e.g. ticket sales, container hire, embarkation/disembarkation services, administration and insurance services, loading/unloading cargo, consolidation/breaking cargo, excursions on a qualifying ship, etc.).

INCOME FROM SHIP MANAGEMENT SERVICES

The Irish regime covers income from the provision of ship management services from Ireland. There are no ownership or bareboat charter requirements; a company can provide these ship management services to both related and/or third parties without having any interest in the ships themselves (however arm's length principles apply). For example, income from pool operating companies can benefit from this category. For ship management services to qualify, the Irish company must have possession and control of the ship(s) in question and must have control of the management of day-to-day, technical, safety, training and bunkering/provisioning matters.

INCOME FROM VOYAGE/TIME CHARTERS

The tonnage tax regime applies to income from the letting on charter of a ship for use for the carriage by sea of passengers/cargo where the operation of the ship and the crew of the ship remain under the control and direction of the (lessor) company. Individual partners in pooled operations may possibly be able to benefit from this category if their pooling arrangements do not constitute a bareboat charter of the ship.

DIVIDENDS FROM FOREIGN SHIPPING COMPANIES

The tonnage tax regime also covers dividends received from foreign shipping companies. For a foreign dividend to qualify, the foreign company must pay the dividend out of profits arising when all of the following conditions are satisfied:

» the foreign company must operate ships (which would fall within this regime),

» the income would be qualifying shipping income,

» at least 50% of the voting power of the foreign company must be held by one or more EU resident companies,

» the distributed profits must have been earned when the conditions above are met and must have been subject to tax outside Ireland.

Dividends received from lower tier subsidiaries up through a chain of subsidiaries can be traced through the chain of companies through which it is paid to the ultimate source in order to satisfy the requirements above.

CAPITAL GAINS FROM SHIPPING ASSETS

The regime provides full relief from capital gains tax on the disposal of assets used wholly and exclusively for the company's tonnage tax activities. Making it ideal for companies planning to expand or replace their fleet. Where companies have used the assets for both qualifying and non-qualifying activities, an apportionment must be done and assets must be held for a continuous period of at least 1 year.

OTHER INCOME/GAINS

Foreign exchange gains and losses associated with the tonnage tax business are covered by the regime. Income from forward freight agreements (FFAs) is included in the regime, once the agreements are entered into for hedging (and not speculative) purposes, and so too is income from contracts of affreightment. In each case, the agreements/contracts must relate to qualifying ships actually owned or chartered-in by the company.

3.6 WHAT SHIPS QUALIFY?

To fall within the regime, ships must be sea-going vessels of 100 tons or more gross tonnage. They must also be certified by the competent authority of a country.

Certain categories of ships are excluded from the regime. The main categories of excluded ships are:

» fishing vessels or factory ships,

» private recreation or sports vessels,

» harbour, estuary or river ferries,

» offshore installations (e.g. oil rigs),

» tankers used for oil extraction activities,

» dredgers,

» non-ocean going tugs, and

» vessels used to provide goods or services normally provided on land (e.g. a restaurant at a permanently moored ship).

3.7 ADMINISTRATION

ELECTION

To obtain the benefits of the tonnage tax regime, a company must make an election. A valid election for tonnage tax takes effect from the beginning of the accounting period in which it is made but the election must be made within 3 years from the date on which the company first qualifies for the regime. An election into the regime is valid for 10 years. It is also possible to make a renewal election for 10 years at any time while in the regime and the renewal election will supersede all previous elections.

If the company is part of a group and there are other companies in that group which could also elect into the Irish tonnage tax regime, then all **such** group companies must jointly elect to fall within these rules. There is a wide definition of 'group' for these purposes, based on the concept of 'control'. Control refers to greater than 50% ownership or greater than 50% voting power which can be direct or indirect i.e. through a chain of companies. A group of companies for this purpose includes (1) all the companies of which an individual has control of and (2) a parent company (which is not controlled by an individual) and all the companies the parent company has control of.

If a company chooses to move their shipping activities into the tonnage tax regime, it will remain in the regime for 10 years as long as it continues to satisfy the qualifying criteria for the regime. If a company/ group cease to qualify during the 10 year period, the election will end when it ceases to qualify. Any capital gains tax relief obtained on the disposal of assets in the regime will be clawed back in such circumstances.

TAX RETURN

To account for tonnage tax profits companies must complete the tonnage tax section of the tax return Form CT1 (page 12 and 13 of the 2013 Form CT1). The total tonnage tax profits calculated should be inserted into the tonnage tax profits box 2.27 (page 13 of the 2013 Form CT1).

The tax return should be submitted on-line to the Irish Revenue Commissioners for each relevant accounting period within 9 months of the period end.

3.8 OTHER CONSIDERATIONS

ARM'S LENGTH RULE

An arm's length rule applies where a tonnage tax company enters into a transaction with an associated person or persons whereby such transactions must be at market value pricing for tax purposes. Ireland also has general transfer pricing rules which applies market value pricing for tax purposes to related party trading transactions. The rule for tonnage tax companies also applies on any intra-company arrangements between a company's shipping trade and its non-shipping activities.

THIN CAPITALISATION RULE

Companies in the tonnage tax regime do not get a tax deduction for interest paid on borrowings due to the fact that tax is paid on a set tonnage profit. Interest on financing for shipping activities should not be allocated to non-shipping activities.

A thin capitalisation rule applies where companies (or groups) in the tonnage tax regime seek to attribute an excessive portion of their overall debt financing to non-shipping activities. The rule operates to re-allocate a 'just and reasonable' portion of such debt financing to the shipping activities (thus preventing such companies from artificially reducing their non-shipping profits with interest associated with shipping activity debt).

ANTI-TAX AVOIDANCE RULE

A general anti-tax avoidance rule applies to all tonnage tax companies to prevent the regime being used for tax avoidance activities or transactions. The provision applies if a tax advantage is obtained through the application of the tonnage tax regime, by either the tonnage tax company for its non-tonnage tax activities or by any other company. A company is expelled from the tonnage tax regime where there is an abuse of the scheme as determined by this section.

RING-FENCING MEASURES

Ring-fencing measures which are designed to ensure that the tonnage tax regime operates as intended are also included. A company must separate any activity within the tonnage tax regime from other activities, particularly in relation to the keeping of records and the computation of tax. Relief for losses incurred on non-tonnage tax activities is not available to offset against tonnage tax profits and income from non-tonnage tax activities may not be included under the regime.

TRAINING REQUIREMENTS

There is no obligation for a shipping company to provide training berths for ratings as part of the qualifying requirements under the Irish tonnage tax regime. As part of the Irish government's commitment to developing the maritime services sector, the IMDO provides a training fund for the National Maritime College of Ireland's (NMCI) cadets. This fund in effect makes the provision of training berths to NMCI students close to zero cost to the shipping company involved in the training programme. The NMCI is the country's dedicated educational institute for training mercantile crew and officers.

SHIP REGISTRATION/FLAGGING

There is no obligation for ships to be on the national ships register or flagged in Ireland. The principal requirement is that the ships are strategically and commercially managed in Ireland. The vessel owner retains the freedom to choose under which registry they wish to flag their vessels under.

3.9 ADVANTAGES OF LOCATING YOUR SHIPPING BUSINESS IN IRELAND

The Irish tonnage tax regime coupled with a generally supportive tax environment makes Ireland an attractive location for international shipping groups. The other advantages of locating a shipping business in Ireland are:

- A standard tax rate of 12.5% on trading activities.
- Efficient finance leasing operations.
- Onshore pooling of tax credits on foreign dividends.
- No CFC rules.
- Wide treaty network.
- Broad exemptions from withholding taxes.

The IMDO is a dedicated government body in place to help and assist with company incorporation, location and growth in the Irish market. The IMDO provides free, impartial advice to reduce a company's risks on entry.

4.0

MARKET SECTORS IN IRISH TONNAGE TAX

4.0

4.1 BRIEF OVERVIEW

The IMDO has identified the following six specific sectors which are likely to benefit from the Irish tonnage tax regime:

- Liner operators
- Tanker operators
- Dry bulk operators
- Cruise/ferry/passenger liner operators
- Ship managers
- Pooled operations

In the following sections the definition of relevant shipping income in the Irish legislation is reviewed in the context of the core and secondary qualifying activities of each of the above target sectors with comments on particular sources of income.

4.2 LINER OPERATORS

Included under this heading are:

- Container ships
- Reefer vessels

In general, these cargo vessels are regarded as “qualifying ships” for the purposes of the Irish tonnage tax regime.

In relation to these cargo carriers the following sources of income are regarded as relevant shipping income:

- Income from the transport by sea of cargo in a qualifying ship operated by the company. Any income referable to the transport of such cargo by land is excluded from the definition;
- Income from the leasing of a qualifying ship where the company retains control over the operation and crewing of the ship;
- Foreign currency gains (whether realised or unrealised) attributable to (i) money held or payable by the company for the

purposes of its tonnage tax trade and (ii) any forward exchange contracts also related to the trade;

» Dividends from certain overseas related companies (refer to 3.5);

» Income from “ship related” activities that are a necessary and integral part of the business of operating the company’s qualifying ships. These activities include the following onshore operations:

  – Ship management operations such as purchasing fuel and hiring crew;

  – Commercial management operations such as booking cargo;

  – Administrative and insurance services related to the transport of cargo. This will include customs, document handling and VAT;

  – Loading and unloading of cargo on a qualifying ship operated by the company, including the moving of containers within a port area immediately before or after the voyage;

  – Consolidation or breaking of cargo carried on a qualifying ship operated by the company immediately before or after the voyage; and

  – Rental or provision to customers of containers for goods to be carried on a qualifying ship operated by the company.

In relation to the above “ship related” activities, the Irish Revenue Commissioners have stated that it may be necessary for them to look at the facts in relation to a particular company in order to decide in any one case whether or not particular activities are necessary and integral to the company’s core business. They have also stated that it may be necessary for them to specify limits in relation to particular activities. If the limits were to be breached, the whole of the income from the activity may fall outside of relevant shipping income.

The IMDO are well placed to liaise with the Irish Revenue Commissioners on behalf of companies where there are any queries over whether particular activities qualify.

4.3 TANKER OPERATORS

In the case of tanker operators the following sources of income are covered by the Irish tonnage tax regime:

» Income from the transport by sea of cargo in a tanker operated by the company. Any income referable to the transport of such cargo by land or referable to any other purpose is excluded;

» An oil tanker used for the purpose of delivering oil from an offshore oil field (in a ‘designated area’ on the Irish Continental Shelf) to an on-shore storage facility is excluded from the definition of a qualifying ship as the profits attributable to such activities are already subject to a special petroleum tax regime. However, a tanker operating outside the Irish Continental Shelf and not engaged in ‘petroleum extraction activities’ as defined in Part 24 Taxes Consolidation Act 1997 would be regarded as a qualifying ship for the purposes of the tonnage tax;

- Some ship operators behave as 'merchant adventurers' by taking full or part ownership of their cargo, rather than simply acting as carriers. Tanker operators provide an example of merchant adventuring. For instance, some tanker owners load their own cargo of oil and transport it to a destination in the hope of reaching the market at the right time to achieve a larger profit. Similarly, oil can be sold on a 'delivered' basis, where the oil is sold at the end of the voyage at the prevailing price, the price risk remaining fully with the operator. In these situations a profit split would need to be made between the non-tonnage tax profit on the oil and the tonnage tax profit on its transportation. There are specific provisions requiring the profit split to be computed on an arm's length basis. However in practice it may be difficult to be definitive as to what constitutes an arm's length price so there may be some flexibility in this regard;
- Income from the leasing of a qualifying tanker where the company retains control over the operation and crewing of the vessel;
- Foreign currency gains (whether realised or unrealised) attributable to (i) money held or payable by the company for the purposes of its tonnage tax trade and (ii) any forward exchange contracts also related to the trade;
- Dividends from certain overseas related companies (refer to 3.5);
- Income from ship related activities that are a necessary and integral part of the business of operating the company's qualifying ships. These activities include the following onshore operations:
  - Ship management operations such as purchasing fuel and hiring crew;
  - Commercial management operations such as booking cargo;
  - Administrative and insurance operations related to the transport of cargo;
  - Loading and unloading of cargo on a qualifying tanker operated by the company.

4.4 DRY BULK OPERATORS

As these are essentially cargo vessels the commentary in 4.2 above is relevant. The following sources of income would be regarded as qualifying shipping income:

- Income from the transport by sea of cargo in a qualifying ship operated by the company. Any income referable to the transport of such cargo by land or referable to any other purpose is excluded from the definition;
- Income from the leasing of a qualifying ship where the company retains control over the operation and crewing of the ship;
- Foreign currency gains (whether realised or unrealised) attributable to (i) money held or payable by the company for the purposes of its tonnage tax trade and (ii) any forward exchange contracts also related to the trade;
- Dividends from certain overseas related companies (refer to 3.5);

- Income from "ship related" activities that are a necessary and integral part of the business of operating the company's qualifying ships. These activities include the following onshore activities:
  - Ship management operations such as purchasing fuel and hiring crew;
  - Commercial management operations including the booking of cargo;
  - Administrative and insurance services related to the transport of cargo. This will include customs, document handling and VAT;
  - Loading and unloading of cargo on a qualifying ship operated by the company;
  - Consolidation or breaking of cargo carried on a qualifying ship operated by the company immediately before or after the voyage.

4.5 CRUISE/FERRY/PASSENGER LINER OPERATORS

For the purposes of this section, passenger liners and cruise liners are grouped as one and Ro-Ro vessels are included with ferry operators.

In the case of cruise/ferry operators the following vessels are excluded from the definition of a "qualifying ship":

- Recreational or sports vessels (This does not include cruise liners that take individual fare paying passengers or vessels operated for bona fide commercial purposes with an overnight passenger capacity, not including crew, of over 50 persons);
- Harbour, estuary and river ferries.

In relation to qualifying cruise/passenger liners and ferry/Ro-Ro vessels, the following sources of income are covered by the Irish tonnage tax regime:

- Income from the transport by sea of passengers (and cargo) in a qualifying ship operated by the company. Any income referable to the transport of such passengers (or cargo) by land or referable to any other purpose (for example, the provision of holiday accommodation) is excluded from the definition;
- Income from the provision by the company operating the qualifying ship of services such as the operation of a cinema, bars and restaurants, shops, etc., which are ancillary to the transport of passengers (or cargo) where the goods and services concerned are consumed on board the qualifying ship;
- Income from the contracting out or franchising to specialist operators of the above on-board services;
- We understand that under the Irish regime the Irish Revenue are prepared to consider gambling as a qualifying activity. However, while no limit has been specified in the legislation as regards the level of gambling activity that would be permitted, the Revenue have indicated that they may have to specify limits in relation to particular activities. They have further stated that if a particular limit were to be breached the whole of the income from that activity could fall outside of the

tonnage tax regime. In applying these guidelines to gambling activities, it is likely that the Irish tax authorities would have regard to the UK tax authorities' (HMRC) practice in this area.

- Under the UK tonnage tax regime, betting/gambling facilities normally offered to customers by seagoing passenger ships for entertainment will generally be regarded as a qualifying secondary activity for the purposes of the UK tonnage tax regime if negligible (i.e. less than 10% of ticket sales plus receipts from the letting of cabins and sale of food and drinks for immediate consumption for that voyage).

» Income from the leasing of a qualifying ship where the company retains control over the operation and crewing of the ship;

» Foreign currency gains (whether realised or unrealised) attributable to (i) money held or payable by the company for the purposes of its tonnage tax trade and (ii) any forward exchange contracts also related to the trade;

» Dividends from certain overseas related companies (refer to 3.5);

» Income from "ship related" activities, which are a necessary and integral part of the business of operating the company's qualifying ships. These activities include the following onshore operations:

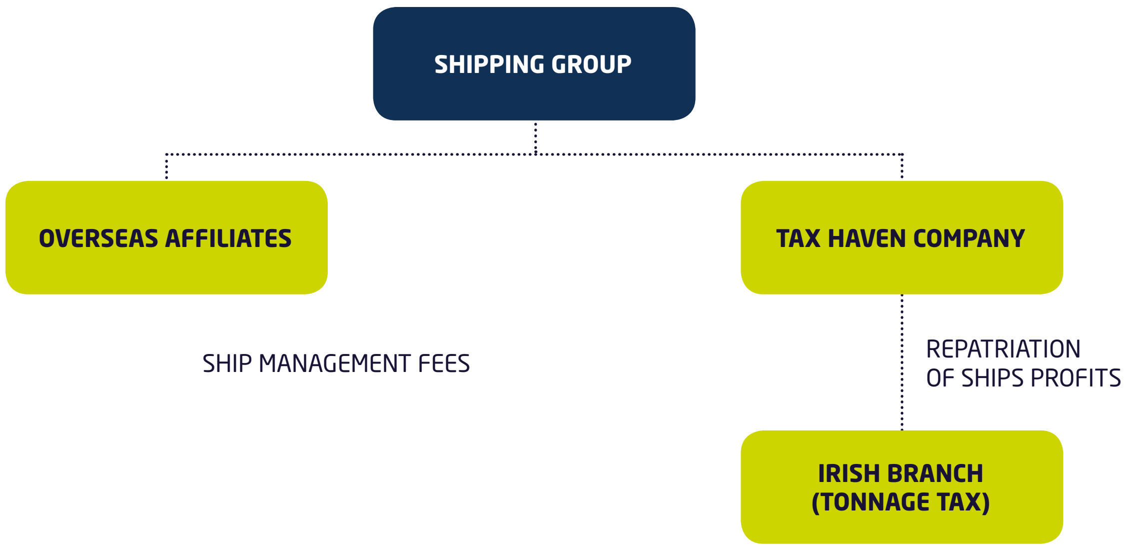
- Ship management operations such as purchasing fuel and hiring crew;
- Commercial management operations including the booking of passengers (or cargo);
- Administrative and insurance services related to the transport of passengers (or cargo);
- Provision of excursions on qualifying ships operated by the company;
- The sale of a holiday under a single contract which includes transport on a qualifying ship operated by the company;
- Embarkation and disembarkation of passengers from a qualifying ship operated by the company.

In relation to the above "ship related" activities, the Irish Revenue Commissioners have stated that it may be necessary to look at the facts of a particular company, to decide whether or not particular activities are 'necessary and integral' to that company's core business. The Revenue Commissioners have also stated that it may be necessary to specify limits in relation to particular activities. If the limit were to be breached the whole of the income from that activity may fall outside 'relevant shipping income'.

As noted earlier, the IMDO are well placed to liaise with the Irish Revenue Commissioners on behalf of companies where there are any queries over whether particular activities qualify.

4.6 SHIP MANAGERS

As ship management fees are specifically **included** in the Irish tonnage tax regime as a qualifying core activity, Ireland can be a location through which a shipping group could route their ship management fees, through a simple structure as follows:



IDEA BEHIND THE ABOVE STRUCTURE:

» The Irish branch carries out ship management activities for overseas affiliates.

» Profits of the Irish branch are taxed on the tonnage of a ship (assuming eligible for tonnage tax regime), and therefore the Irish branch has a fixed tax liability each year (election must be made for the tonnage tax regime).

» Profits can be repatriated back to head office free of Irish tax (no withholding tax on branch profits).

» Funds can then be reinvested outside of Ireland without any Irish tax liability.

Unlike other tonnage tax regimes, the Irish legislation specifically includes income from ship management services as a qualifying core activity.

WHAT IS A SHIP MANAGEMENT SERVICE?

Under the Irish regime, a company will be regarded as operating a qualifying ship for the purposes of the provision of ship management services if it has entered contractual arrangements in relation to the provision of ship management services for the qualifying ship for a stipulated period of time and the terms of those arrangements give the ship management company:

» possession and control of the ship;

» control over the day-to-day management of the ship, including the right to appoint the master and crew and route planning;

» control over the technical management of the ship, including decisions on its repair and maintenance;

- control over the safety management of the ship, including ensuring that all necessary safety and survey certificates are current;
- control over the training of the officers and crew of the ship, and
- the management of the bunkering, victualling and provisioning of the ship.

All of the above elements must be present. In essence, real economic activity is required before the provision of ship management services will be regarded as operating a qualifying ship. The stated intention of the Irish Revenue Commissioners is to minimise the possibility of "brass plate" operations.

Ship management companies can be divided into three general categories:

[a] an **independent** company that provides ship management services but owns no ships in its own right and is not owned by a shipping group/company,

[b] a **ship management** company that is owned by a shipping group but in addition to managing group ships also manages ships on behalf of third parties,

[c] a company (usually located in a convenient shipping centre) that is owned by a shipping group which provides day-to-day management exclusively for group ships (owned through SPCs located in favourable tax jurisdictions). This type of structure is usually referred to as the **"Greek" structure**.

Each of these scenarios is considered in further detail below in the context of the opportunities that the Irish tonnage tax regime can offer.

[A] INDEPENDENT COMPANY

It is assumed that the company would be able to establish a stand-alone or branch operation in Ireland and that it would satisfy the tests laid down in the Irish legislation to qualify for the Irish tonnage tax regime.

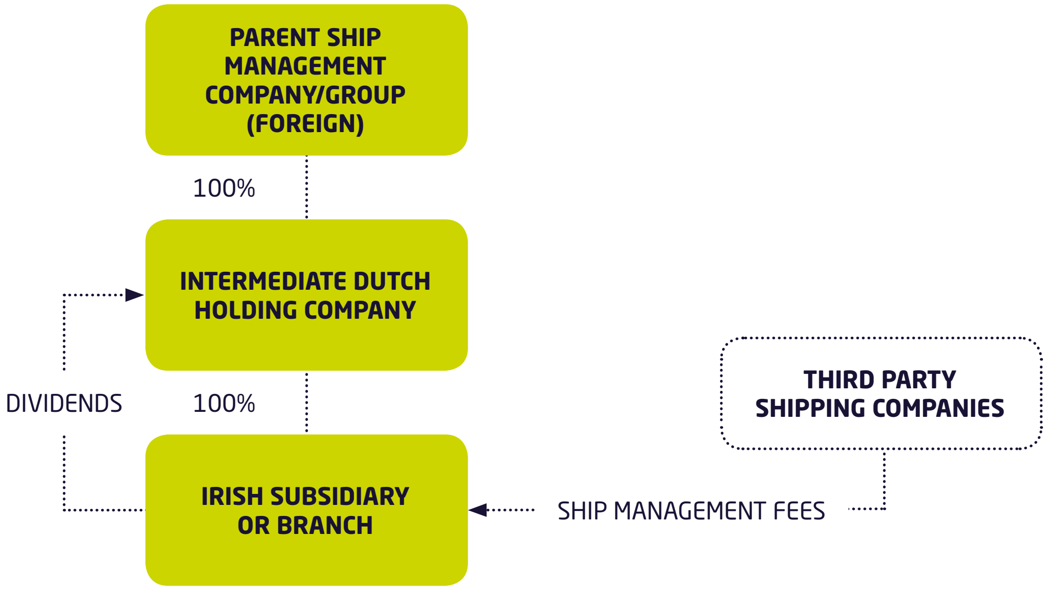
Consideration would need to be given to the transfer of an existing ship management operation from the foreign parent company as it may trigger an exit charge in the tax jurisdiction of the parent. However, it is often possible to achieve this transfer of operations without incurring significant exit charges. Similar considerations would apply where a stand-alone entity is created and the existing ship management activity is transferred to it over time from the foreign parent.

Provided the conditions referred to in section 4.6 above were satisfied, the receipt of ship management fees by the Irish operation would qualify for the tonnage tax regime. Foreign parent CFC issues would need to be considered. Transfer pricing should not be an issue because the transactions (being with third parties) would be at arm's length.

There should be no major tax difficulties in extracting the profits from Ireland provided the parent company is located in a country with which Ireland has concluded a Double Taxation Agreement. Even, if the parent is located in a non-treaty country, it still should be possible to extract the profits from Ireland without incurring an Irish tax cost if an intermediate holding company (located in a suitable tax treaty country) is present or if the ultimate parent company is a quoted company or a company resident in a country with which Ireland has a tax treaty.

Below is a possible structure that could be used in connection with the establishment of an independent ship management operation in Ireland to avail of the Irish tonnage tax regime.

INDEPENDENT COMPANY SCENARIO



The ship management fees received by the Irish subsidiary/branch would qualify for the Irish tonnage tax regime (provided the conditions in section 4.6 above were satisfied). The Irish profits could, if required, be repatriated to the Netherlands by way of dividend without any Irish withholding tax. The receipt of the dividends by the Dutch company would not attract Dutch taxes under their participation regime.

[B] SHIP MANAGEMENT COMPANY OWNED BY A SHIP OWNING GROUP WHICH MANAGES GROUP SHIPS AND ALSO MANAGES SHIPS ON BEHALF OF THIRD PARTIES

It is assumed that the foreign group would be able to establish a stand-alone or branch operation in Ireland and that it would satisfy the tests laid down in 4.6 to qualify for the Irish tonnage tax regime.

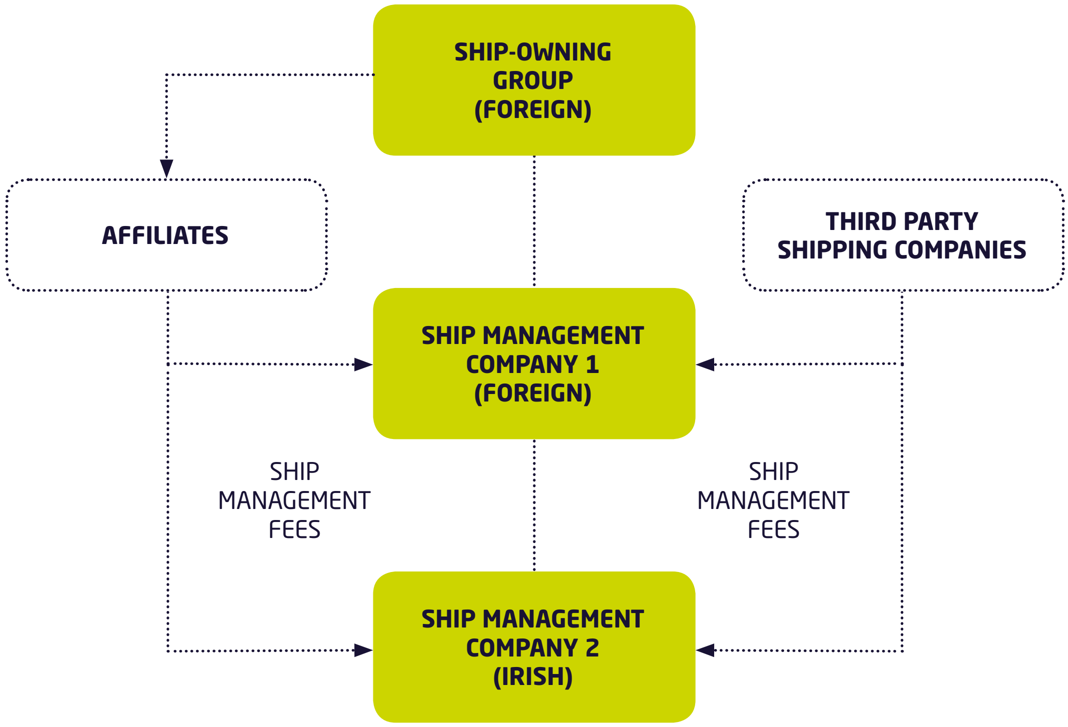
Consideration would need to be given to the transfer of an existing ship management operation from the foreign parent company as it may trigger an exit charge in the tax jurisdiction of the parent. However, it is often possible to achieve this transfer of operations without incurring significant exit charges.

Provided the conditions referred to in 4.6 above were satisfied, the receipt of ship management fees (from both related and third parties) should qualify for Irish tonnage tax. Foreign parent CFC issues would need to be considered.

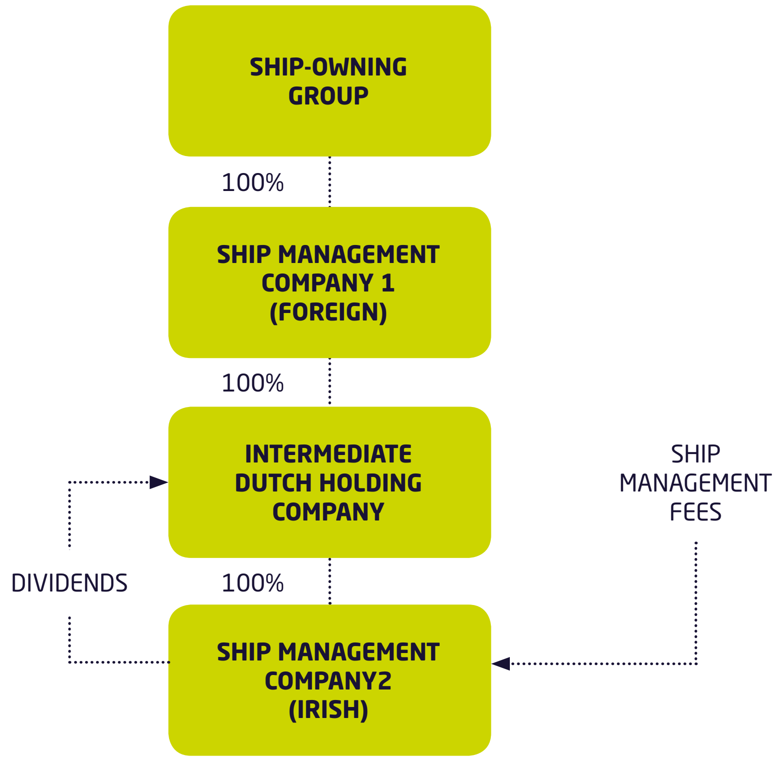
Transfer pricing needs to be considered where there are cross border transactions involving related companies. It would be necessary to ensure that the fees charged by the Irish tonnage tax company to affiliates for ship management services were in line with rates charged to third parties.

POSSIBLE STRUCTURE FOR AN IRISH SHIP MANAGEMENT OPERATION (WHERE REVENUES ARE DERIVED FROM BOTH RELATED AND THIRD PARTY SOURCES)

100%



A variation of the structure with a Dutch holding company as an intermediary.



[C] INTERNATIONAL SHIPPING GROUPS OPERATING THE "GREEK" STRUCTURE

It is assumed that the group would be able to establish a stand-alone or branch operation in Ireland and that it would satisfy the tests laid down in section 4.6 to qualify for the Irish tonnage tax regime.

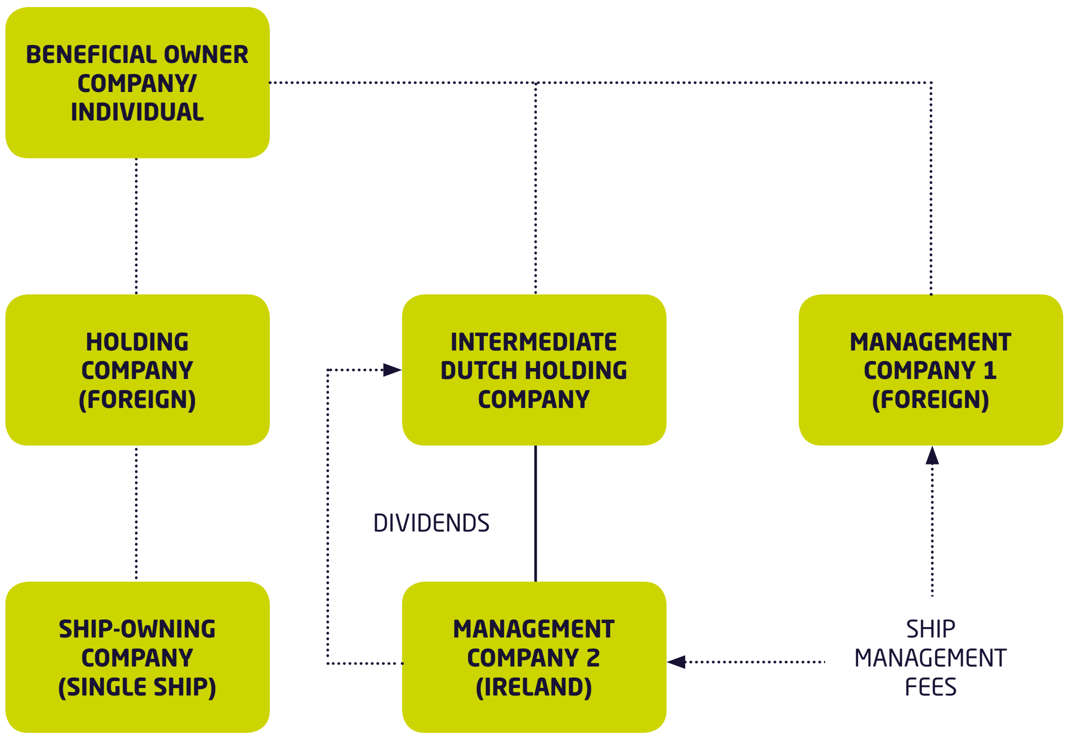
Consideration would need to be given to the transfer of an existing ship management operation from the foreign parent company as it may trigger an exit charge in the tax jurisdiction of the parent. However, it is often possible to achieve this transfer of operations without incurring significant exit charges.

Provided the conditions referred to in 4.6 above were satisfied the receipt of ship management fees (from related companies) would qualify for the Irish tonnage tax. Foreign parent CFC issues would need to be considered.

POSSIBLE STRUCTURE

Combining an existing 'Greek structure' and an Irish ship management operation and using an intermediate Dutch holding company to facilitate repatriation of profits

The receipt of ship management fees by Management company II would be eligible for the Irish tonnage tax regime. The profits of Management company II could subsequently be repatriated to the Netherlands without any further Irish or Dutch taxes.



LEVEL OF PROFITS THAT COULD BE LOCATED IN IRELAND FROM A SHIP MANAGEMENT OPERATION

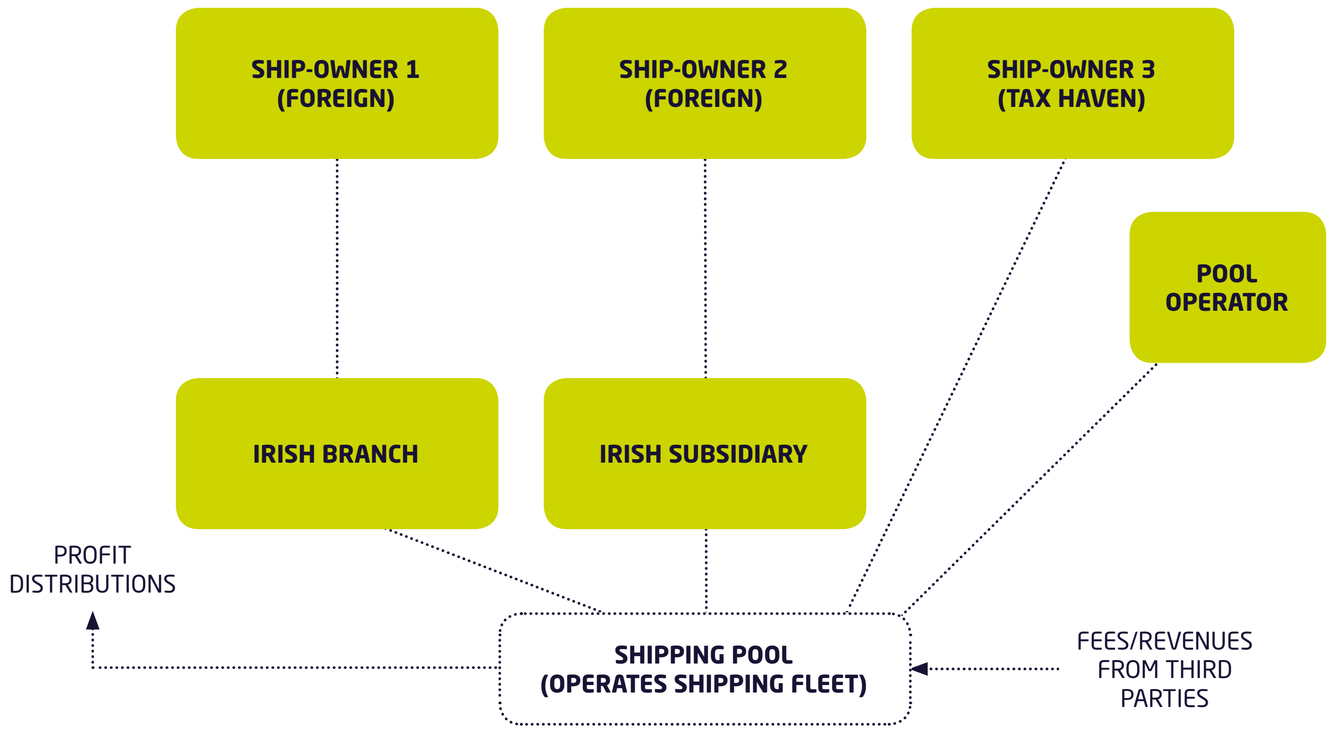
In the case of third party business there would be no restrictions on the level of profits that could be located in Ireland from a ship management activity located here. The arm's length transfer pricing rules normally only apply in the case of transactions between related parties or affiliates.

In the case of ship management services provided to affiliates it is more difficult to determine the appropriate level of fees that could be charged by the Irish company. It is possible that a 'cost plus' basis might apply with a percentage mark up of between say 5% to 10% of costs. The more functions that are carried on in Ireland, the higher the level of profits that could be justified, Similarly, the greater the level of commercial risk borne by the Irish company the greater the profit that could be taken here.

4.7 POOLED OPERATIONS

A ship operator may form alliances or pools with other companies and share liner routes. It is the nature of a pooled liner service that the cargo, having been booked by the ship operator, may actually be carried in one of the partners' ships.

A pool operating company is normally established to commercially operate the ships as a single fleet. However, the pool operating company normally does not take ownership of the ships. The ships remain owned by their beneficial owners (usually through Special Purpose Companies or SPCs). The pool participation is normally governed by an agreement, which sets out each ship



owner's legal obligations and the profit sharing arrangements that will apply between the partners. It is not totally clear how a pool participation would be treated for Irish tax purposes but it is likely that it would be regarded as something akin to a partnership with each partner being treated as carrying on their own separate trade. The pool operating company may or may not be a partner in the partnership.

The Irish tonnage tax regime offers opportunities for shipping pools. Firstly, the activities of the pool operating company will be regarded as the provision of a ship management service provided the conditions referred to in section 4.6 above are satisfied. If these conditions are satisfied then management fees payable to the pool operator by the pool partners should qualify as relevant shipping income for the purposes of the Irish tonnage tax regime. Similarly, if the pool operator is remunerated by a share of the profits then such income should also be eligible for tonnage tax treatment.

Depending on the precise terms of the pooling agreement, there may also be opportunities for the individual partners in the pool to qualify under the Irish tonnage tax regime in respect of their share of the profits of the pool. In order to qualify for Irish tonnage tax a pool member must satisfy the following:

» participation in the pool must be through a company,

» the company must be within the charge to Irish corporation tax either as an Irish resident company or else operating in Ireland through a branch or agency,

» the pool member must operate qualifying ships (the terms of the pool participation agreement will be relevant in determining whether the pool member can be regarded as operating qualifying ships. It may be possible to structure the pooling arrangement in a manner that allows the pool members and the pool operator to avail of the benefits of the Irish tonnage tax regime), and

» the strategic and commercial management of the qualifying ships must be carried on in Ireland (again the terms of the pool participation agreement will be relevant in this context).

The Pool Operator should qualify for the tonnage tax in respect of his fees/share of the profits provided the conditions in section 4.6 (ship management services) are satisfied.

The pool members may also qualify for the benefits of the Irish tonnage tax regime provided the pooling arrangement is structured in a manner that they are regarded as participating in the pool through a qualifying company i.e. a company:

» that is within the charge to Irish corporation tax,

» that operates qualifying ships, and

» which carries on the strategic and commercial management of those ships in Ireland.

In this regard a company will not be regarded as the operator of a ship that has been chartered out by it on bareboat charter terms. Therefore for a pool member to qualify for the tonnage tax regime it would be critical that the terms of the pooling arrangement should not constitute an effective bareboat charter of the ships to the pool operator.

There should be no Irish withholding taxes on the distribution of the pool profits to the ship owners. However, there may be foreign tax considerations. Depending on the tax residence of the recipient, the tax treatment of the distribution in the foreign jurisdiction may be affected by the terms of a Double Taxation Agreement.

The profits from the pool operation are likely to fall outside the scope of most CFC regimes as there would be real substance in Ireland and most of the income would be derived from transactions with third parties.

5.0

TAX BASED LEASING

5.0

5.1 GENERAL

Ireland is regarded as one of the most attractive and tax efficient locations for leasing assets in the world. In particular, it is ranked as the number one location for leasing aircraft with 9 of the top 10 aircraft lessors located here. Companies leasing ships from Ireland can benefit from a favorable tax regime, robust legal system which is supported by a skilled workforce with industry experience.

Ireland's leasing industry has been in existence for over 35 years and is recognised as having pioneered the development of a supportive tax and legal environment adapted to the requirements of the leasing industry. The Irish government is also committed to the growth and development of the leasing industry in order to ensure that Ireland maintains its position as one of the world's preferred leasing jurisdictions.

Ireland has built up a talent pool of people with a unique level of specialist expertise and commercial experience. The industry is also serviced by locally based professional services firms with industry knowledge including lawyers, tax advisers, accountants, corporate service providers and specialist lease management companies. These advisers' provide important support services to the leasing community and is a key benefit to setting up a leasing operation in Ireland.

On the tax side, a ship leasing company can avail of:

» a low corporation tax rate of 12.5% on its leasing profits (provided the company has sufficient activities and substance in Ireland),

» accelerated tax depreciation write off period of eight years which is shorter than other leasing locations. This together with the ability of an Irish company to carry forward trading losses indefinitely may result in a deferral of any cash tax payable for the early years of the life of an asset,

» a strong double tax treaty network which is extensive, with 68 treaties currently in force, and growing. The majority of these provide for zero withholding tax on inbound lease rentals which should eliminate any foreign taxes arising,

- generally speaking, no withholding tax on payment of interest or dividends to investors / financiers based in EU/double tax treaty jurisdictions,
- low rates / elimination of tax on gains on sale of ships and exit from Ireland, and
- a beneficial indirect tax regime for ship leasing. The leasing of most ships is zero-rated for VAT purposes and there are a number of stamp duty exemptions applying to the transfer / lease of ships.

On the legal side Ireland has a well-developed, sophisticated and reputable legal system. It is regarded as a good location for registering ownership interests in ships and enforcing security where lessees are in default.

5.2 TAXATION OF AN IRISH LEASING COMPANY

Ireland has two rates of corporation tax applicable for leasing activities. Where an Irish tax resident company is regarded as carrying on a "trade" of leasing, it should be able to tax any profits from the lease of the ships at the rate of 12.5%. Additionally, any gains realised on the sale of the ships and other income from activities related to its leasing trade should also be subject to tax at 12.5%.

Where the trading conditions are not satisfied, the leasing profits are subject to tax at 25% with any commercial gains on the sale of assets taxed at the rate of 33%.

It should be noted that income from the charter of ships out on a bareboat charter basis is not regarded as relevant shipping income for the purposes of the tonnage tax regime and such arrangements would be taxable as outlined in this section.

TRADING STATUS OF LESSORS

In a leasing context, in order to be considered to be "trading" the company should have a certain volume of activity associated with the holding and management of assets, leases and/or financing activities carried on in Ireland. It should also satisfy the substance requirements whereby the company should have access to an office and employ suitably qualified persons in Ireland to carry out the day-to-day activities of the company.

Typically, big ticket leasing companies will for commercial reasons require its assets to be acquired and held in a separate asset owning special purpose company (SPC). Where the activities of the individual SPC are limited to the leasing of a single asset or a small number of assets (which may ordinarily jeopardise its trading status), it may be possible for the SPC to rely on the trading status of its wider Irish group's leasing activities for the purposes of establishing trading status, where certain conditions are met.

If there is any doubt as to the trading status of an SPC, an opinion may be sought from the Irish tax authorities as to the trading nature of a particular company or transaction.

TAX DEPRECIATION

The Irish lessor should be entitled to tax depreciation by way of an annual writing down allowance on the cost of the ship spread over 8 years on a straight line basis. This is shorter than other leasing locations. On the sale of an asset there would be a recapture of tax depreciation claimed up to the amount of the original cost of the asset.

LEASING LOSSES

Generally speaking losses from a trading activity can be used to shelter prior year profits and can be carried forward indefinitely and used to shelter future leasing profits. Also losses are available to shelter leasing profits of companies within the same corporation tax group on a current year basis.

Losses which arise from capital allowances claimed on leased assets are restricted for use to shelter only “income from the company’s trade of leasing”. Relief is available which extends the type of income which is regarded as income from a trade of leasing to include income from:

(i) the leasing of machinery or plant,

(ii) the provision of finance and guarantees to fund the purchase of plant or machinery similar to that leased by the company,

(iii) the provision of leasing expertise in connection with plant or machinery similar to that leased by the company,

(iv) the disposal of plant or machinery acquired by the company in the course of its leasing trade, and

(v) activities ancillary to the above.

In order to avail of the relief, the following two conditions must be met:

» the activities of the company claiming the capital allowances or its wider 75% group must consist “wholly or mainly” of the leasing of plant or machinery; and

» at least 90% of the ‘activities’ of the company claiming capital allowances must consist of one or more of the categories of leasing income described in (i) to (v) previously.

It is generally accepted that where a leasing company earns income from the above activities listed at (i) to (v) above as part of its wider leasing trade or as part of the leasing trade of its 75% group, such income can also be taxed at the rate of 12.5%.

TREATY NETWORK

The Irish resident trading company should have full access to the Irish treaty network and the benefits of the EU directives, which effectively eliminates or reduces withholding taxes on cross border income flows into and from Ireland. Ireland has entered into 68 double tax treaties to date which are in force, the majority of which provide for zero withholding tax on inbound lease rentals which should eliminate any foreign taxes arising on its leasing activity.

TRANSFER PRICING

Ireland recently introduced transfer pricing requirements which apply to all trading entities. Therefore, Irish lessors need to ensure that all intra-group trading activities are priced at an arm’s length rate and adequately supported by relevant transfer pricing documentation.

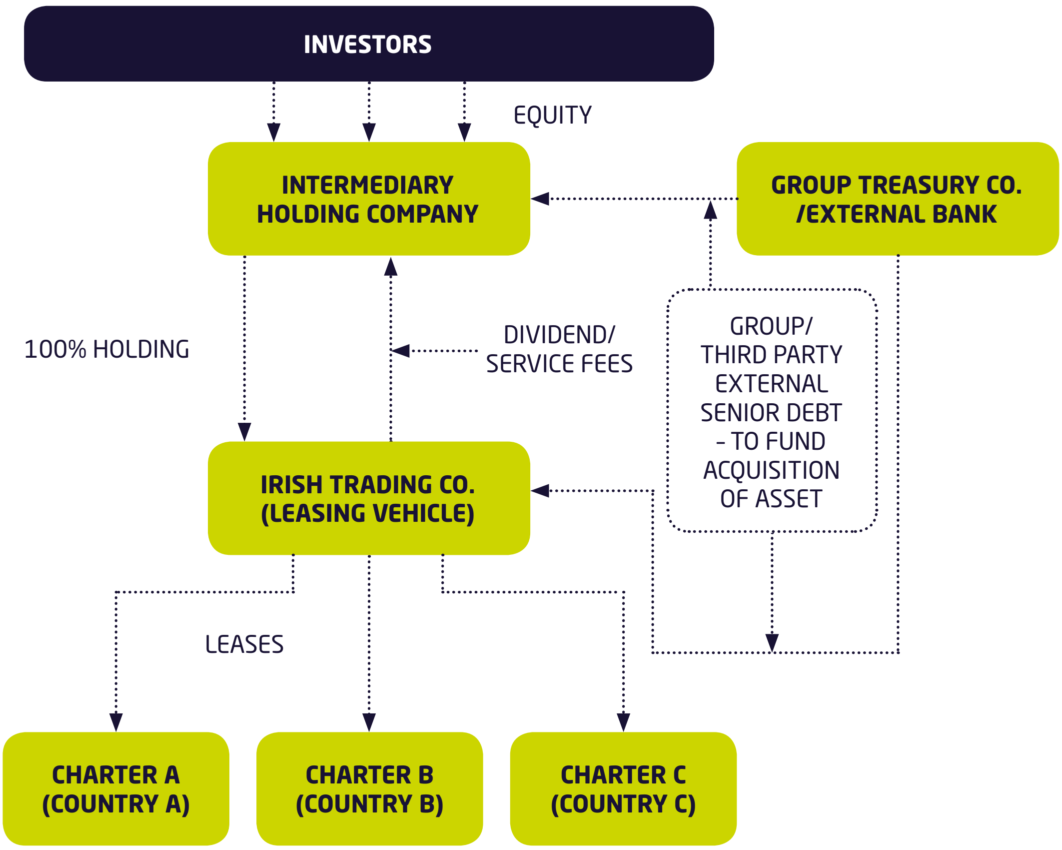
RAISING FINANCE

Irish lessors can be funded by way of debt and equity. Ireland does not have any debt: equity ratio or thin capitalisation rules. This allows flexible options when structuring the debt and equity mix. Interest expenses are generally deductible for Irish corporation tax purposes on an accruals basis. However, further consideration needs to be given to intra-group debt. Generally speaking, dividend and interest payments by Irish leasing companies are exempt from withholding tax. In most cases, withholding tax exemptions apply automatically but certain exemptions require minimal administration. There are no transaction taxes (e.g. stamp duty) on the issue of equity or debt.

5.3 LEASING STRUCTURES

Tax efficient leasing structures by their nature are complex and will need to be tailored to suit the specific tax and legal requirements of the parties and the jurisdiction(s) in which the various parties are located. However, we have set out below some typical structures which give a general overview of the type of Irish tax effective leasing structures that could be used for foreign shipping groups wishing to establish Irish leasing operations. These structures are based on typical leasing structures used in other industries.

5.3.1 TRADING PLATFORM STRUCTURE



This is a typical trading structure for leasing. Where the Irish company has sufficient activity and substance in Ireland, its profits from the underlying leasing activities should be taxable at the rate of 12.5%. The company should also be able to claim a tax deduction for the capital cost of the ships over a period of 8 years on a straight line basis. Given that the cost of the ship can be written off for tax purposes quicker than for accounting purposes and the fact that losses can be carried forward indefinitely, the company would be expected to recognise a tax loss for the early years of the life of the asset, resulting in nil cash tax paying position on the lease of that asset[7]. This is merely a timing difference but can free up cash resources for other commercial purposes. Any gains realised on disposal of the ship should also be taxable at the rate of 12.5% also.

Interest costs on debt used to finance the ships should also be generally deductible (subject to certain conditions for intra-group debt). Exemptions are available from withholding taxes on the payment of cross border interest including where the lender is located in the EU or a country which has a double tax treaty with Ireland and the interest is generally subject to tax in that jurisdiction.

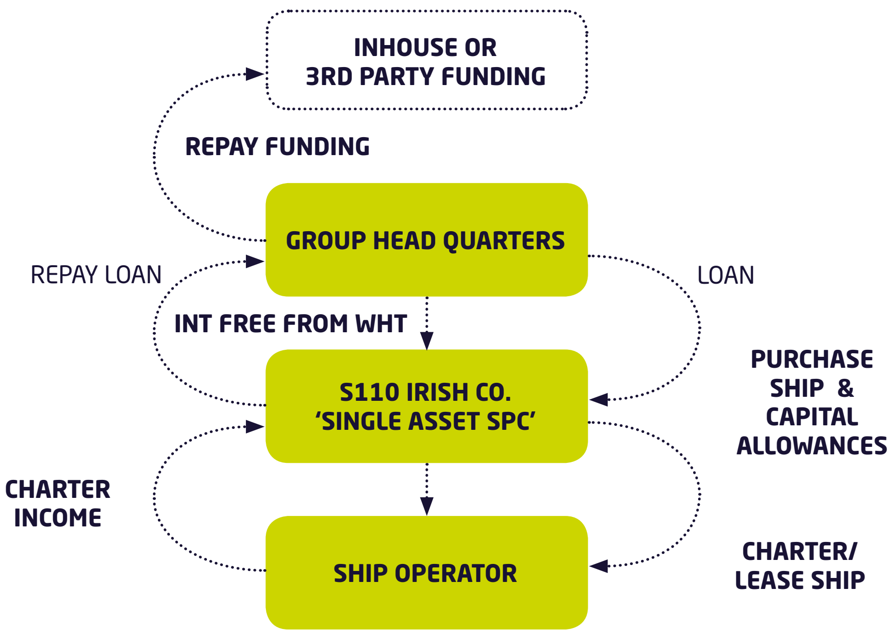
Generally speaking an exemption from dividend withholding tax should be available on payments of dividends by the Irish trading company or holding company on the repatriation of profits.

5.3.2 SECTION 110 REGIME

Ireland has an attractive securitisation regime which has recently been enhanced to facilitate the securitisation of non-financial assets including plant and machinery (such as ships).

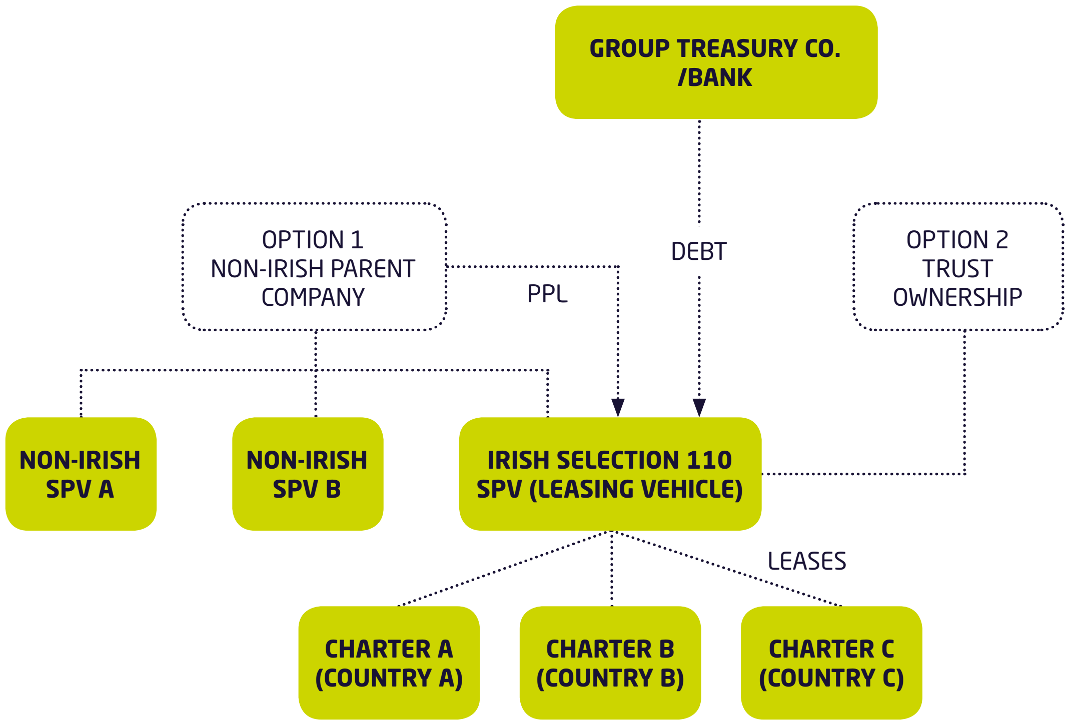
This regime provides further opportunities for companies using Ireland as a location for leasing and financing activities, by delivering a better overall after-tax return.

An example of a structure to illustrate the section 110 company is below.



7. Please note that the actual tax payable by the leasing company will be determined by actual lease payable under the lease, the circumstances of the other assets leased by the company and any other activities carried on by the company. Where the company replenishes its portfolio of assets, the company can typically defer any cash tax payable for an extended period.

A typical structure for international groups is also illustrated further in the following example.



BENEFITS OF A SECTION 110 COMPANY:

» Can be structured to be tax neutral.

» Subject to Irish corporation tax at a rate of 25% on its taxable profits, but such taxable profits can be negligible.

» Irish tax authorities must be notified but no special tax rulings or tax authorisations are required in order achieve the tax neutral status.

» No minimum taxable profits are required to be left in Ireland.

» No trade test required for section 110 companies.

QUALIFYING CONDITIONS

For Irish tax purposes, a section 110 company must:

[a] be tax resident in Ireland,

[b] carry on a business of acquiring, holding or managing qualifying assets (this includes the holding of ships), and

[c] hold qualifying assets with a market value of not less than EUR10m on the day on which the assets are first acquired.

As the tax rules are established in legislation it is not necessary to obtain Irish Revenue approval for this special purpose company. Once the conditions of the legislation are fulfilled, the benefits of the section are available to the Irish company once it elects into the regime.

TAXATION

The Irish section 110 special purpose company (S110 SPC) can be funded by way of external debt and/or internal debt/equity which takes the form of a profit participation loan (PPL) issued by the S110 SPC.

While S110 SPCs are taxable at a headline rate of 25% after deducting expenses, transactions are generally structured so that the level of taxable profit remaining is negligible with surplus profits extracted by way of interest on a PPL.

The S110 SPC may be owned either directly by a group company or through an orphan trust to create a bankruptcy remote structure. Often lenders will require that the asset is held in an SPC owned by an orphan trust structure for security purposes.

TREATY NETWORK

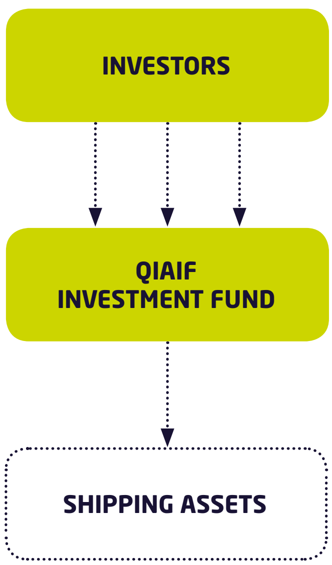
The S110 SPC should be eligible to benefit from the Irish treaty network and EU Directives, effectively eliminating or reducing withholding taxes on cross border income flows into and from Ireland.

One primary advantage of this structure over the trading platform is that the company does not need to meet the same level of substance requirements (discussed above for trading companies) as the company is not regarded as carrying on a trade in Ireland. The structure generally allows for most activities to be outsourced to third parties or group companies.

TRANSFER PRICING

As a non-trading company, the S110 SPC would not be subject to the Irish transfer pricing rules however under section 110 itself, it would be required to operate on an arm's length basis (with the exception of qualifying profit participating loans).

5.3.3 QIAIF STRUCTURE – INSTITUTIONAL INVESTORS



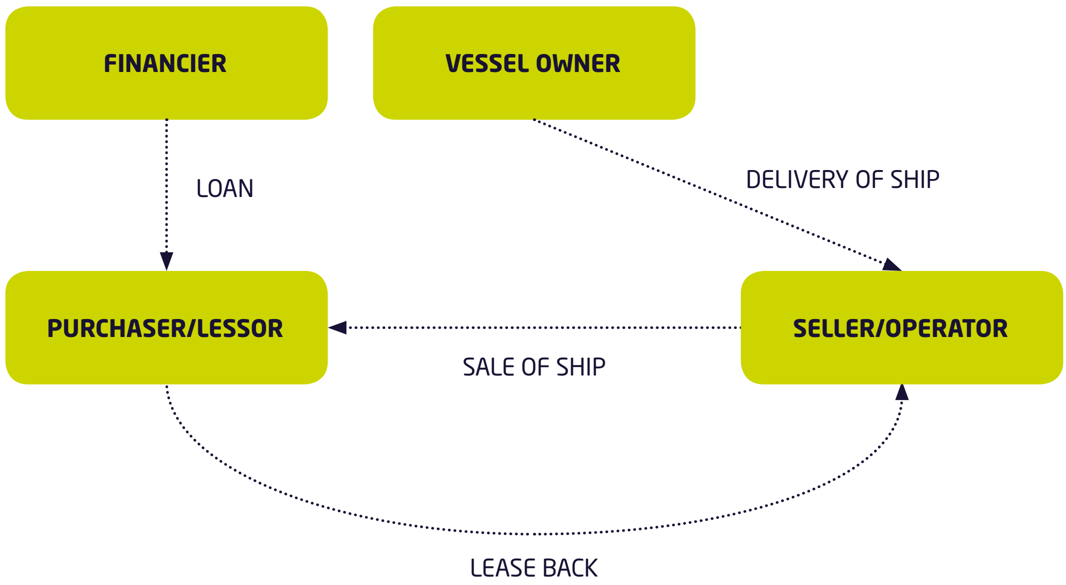
An Irish Qualifying Investor Alternative Investment Fund (QIAIF) is an onshore investment fund vehicle which is regulated by the Irish Central Bank and can be marketed to professional and institutional investors. The QIAIF is a well-established, regulated, investment fund vehicle and is one of the most successful fund structures in Ireland. Because of its flexibility, QIAIFs are the vehicles which are most frequently used to structure alternative investment funds including hedge funds, funds of hedge funds, venture capital/private equity funds and real estate funds.

The QIAIF must be authorised and is subject to ongoing supervision by the Irish Central Bank. In addition, the QIAIF must designate an Alternative Investment Fund Manager (AIFM), or in the case of a QIAIF set up as an investment company, may opt to be "self-managed". The QIAIF must also appoint an investment manager approved by the Irish Central Bank to manage the portfolio of assets.

A QIAIF is exempt from Irish tax on its income and gains, irrespective of where the investors in the fund are resident. In addition, no withholding taxes apply under domestic legislation on income distributions or redemption payments made by a QIAIF to non-Irish resident investors, once appropriate non-resident declarations are in place.

The Irish tax authorities support the granting of treaty benefits to Irish regulated investment funds and QIAIFs are generally entitled to the benefits of Ireland's extensive tax treaty network. However, the availability, or otherwise, of treaty benefits will ultimately depend on the legal structure of the fund and the position of the tax authority in the source country. As a result treaty access should be considered on a case-by-case basis. A QIAIF may however hold investments through special purpose companies (SPCs) to improve tax efficiencies. By way of example, an Irish section 110 company can be set up as a subsidiary of the QIAIF to hold the ships and lease to the relevant foreign lessees. As the section 110 company is Irish incorporated and an Irish tax resident corporate entity, it should be in a better position to claim treaty benefits in order to reduce/eliminate any foreign tax arising on the lease. The section 110 company could use a profit participating loan to extract its profits from the leasing activity and such profits should not be subject to Irish tax at the QIAIF level, where the QIAIF does not have any Irish investors. The tax benefits of using a section 110 company are discussed in more detail above. The combination of an Irish QIAIF and a section 110 company can facilitate a highly efficient, onshore investment platform structure offering a low effective tax rate and having no withholding tax on outbound payments.

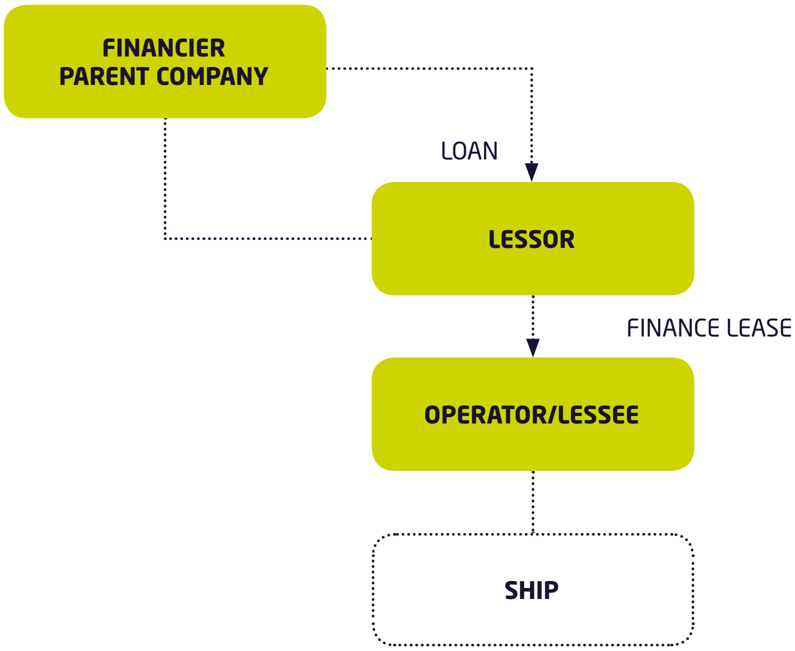
5.3.4 SALE AND LEASEBACK



In a sale and leaseback arrangement the owner of the ship will sell its interest in the asset to a purchaser and then immediately lease the asset back from the purchaser as part of the same transaction. The benefits of this transaction are that the seller can realise any profits on the sale of the asset while keeping possession and the use of the asset thereby allowing it to free up capital for other purposes. The purchaser benefits from the immediate long-term income generated from the lease of the asset without having to source a customer to lease the asset to.

This structure is also typically used where an operator has made a pre-order for a new ship from a vessel owner and then arranges with a leasing company to finance the purchase of the ship. The sale and lease back transaction will be entered into by the parties at the time of delivery of the ship to the operator. Title of the ship will pass to the leasing company but the operator will take delivery of the asset from the vessel owner under the leasing arrangement.

5.3.5 FINANCE LEASING



Finance leasing can be used as an alternative method of financing the acquisition of ships. A finance lease is one where substantially all the risks and rewards of ownership of an asset are transferred to the lessee. The benefits of finance leasing is that it allows a ship owner to preserve its cash flow by spreading the capital cost of purchasing the asset over the term of the lease while maintaining the use of the asset. The lessee also maintains the full tax benefits of ownership of the asset, including the ability to claim tax depreciation. The lessee can also avoid taking on the residual value risk of the asset at the end of the lease.

In a true finance lease, the lessee will generally account for the finance lease by recognising the leased asset as a fixed asset on its balance sheet and a liability for finance lease payables. In the company's profit and loss account there would typically be a charge for depreciation and for finance charges in relation to the leased asset and the financing respectively. The lessor will recognise the amount due under the lease on its balance sheet as a finance lease receivable and the interest element of the lease payment will be recognised as income in its profit and loss account. The finance lease can also be structured so that the lessor bears the burden of the wear and tear of the asset and can claim capital allowances on the cost of the asset.

6.0

IRELAND AS A HOLDING COMPANY LOCATION

6.0

Ireland has become a destination of choice for listed and private multinational groups to operate from. This is largely based on Ireland's membership of the EU, capital gains tax participation exemption, generous foreign tax credit system, the ever expanding double tax treaty network and the general ability to pay dividends free of withholding tax.

Multinational groups are using Ireland as a tax efficient 'hub', to expand internationally and maximise the fiscal and operational returns for their business.

Ireland's main tax advantages for holding companies are:

» Capital gains tax participation exemption on disposal of qualifying shareholdings;

» Exemption for tax on dividends from Irish resident companies;

» Flexible foreign tax credit system which generally eliminates Irish tax arising on foreign dividends;

» No CFC legislation or thin capitalisations rules;

» Wide ranging exemptions from withholding tax on outbound dividends under Irish domestic law;

» Access to double taxation agreements to reduce withholding tax on inbound royalties and interest, and additional domestic provisions to reduce withholding tax on outbound payments;

» Extensive double taxation agreement network and access to EU directives;

» Manageable substance requirements.

6.1 PARTICIPATION EXEMPTION ON CAPITAL GAINS

Ireland has a full participation exemption on capital gains (at a rate of 33%) for Irish holding companies. Broadly speaking, this exemption applies to gains on any disposal of shares when the following conditions are satisfied:

THE TARGET COMPANY

The target company to be disposed of must be resident for tax purposes in an EU Member State or a country with which Ireland has concluded a double tax treaty.

THE PARENT COMPANY

The holding company must have held at least 5% of the ordinary shares in the target company (and have been entitled to at least 5% of the profits available for distribution and assets available on a winding up) for a continuous period of 12 months at the time of the disposal or ending within two years of the disposal.

THE TRADING TEST

At the time of the disposal either (i) the target company is wholly or mainly trading, or (ii) the parent company, and each of its 5% subsidiaries, and the target company and each of its 5% subsidiaries, together form a trading group (i.e. the business of each company taken together consist wholly or mainly of the carrying on of a trade or trades). Wholly or mainly means more than 50% of its activities.

In applying these conditions, group holdings and holding periods are aggregated; repo-type arrangements are ignored; and shares acquired in a reorganisation are treated as being the same shares as the shares held before the reorganisation.

Once the relevant company is satisfied that it qualifies for the participation exemption on capital gains, no clearance is required for the capital gains tax exemption to apply.

6.2 DIVIDEND INCOME

INBOUND DIVIDENDS

Foreign dividends paid out of the trading profits of a company that is either (i) resident in an EU/ treaty country, or (ii) is a publicly quoted company or 75% subsidiary of a publicly quoted company can be taxed at the 12.5% corporation tax rate (on election).

Corporation tax at the rate of 25% will apply to foreign dividends sourced from other companies or from non-trading profits.

While Ireland does not have a full participation exemption in respect of foreign dividends, Ireland has a flexible system for granting foreign tax credits which can minimise or eliminate Irish tax on dividend income. Treaty credit relief is available on dividends from treaty resident subsidiaries and unilateral credit relief is available (minimum 5% shareholding requirement) in respect of dividends from non-treaty subsidiaries, for foreign underlying taxes or foreign withholding taxes suffered on dividends paid to an Irish resident company, which generally means no additional tax to pay in Ireland. Where the foreign tax exceeds the Irish tax on the dividend, the excess can be pooled and offset against Irish tax on other foreign dividends received in the same accounting period. Any balance unused can be carried forward and used in subsequent accounting periods. If a company has elected to tax trading dividends at the 12.5% rate, any excess foreign tax credits arising on trading dividends can only be applied against tax on other trading dividends. Any excess credit from non-trading dividends (25%) can be used to offset tax on both trading dividends and non-trading dividends.

Relief can also extend to foreign tax suffered by a lower-tier subsidiary where the company paying the dividend has itself received dividends from the lower-tier subsidiary. A minimum 5% association is required between the companies. Trading profits from lower tier EU/treaty country subsidiaries can also be traced through to the ultimate dividend received by an Irish company for the purposes of applying the 12.5% rate.

Dividends from an EU resident company where the foreign effective rate of tax is less than the Irish tax rate may qualify for an enhanced credit, the net impact of which should ensure no additional Irish tax is payable on these dividends.

OUTBOUND DIVIDENDS

Dividends paid by Irish resident holding companies are subject to a 20% dividend withholding tax (DWT). However, there are a number of exemptions to enable dividends to be paid free from DWT. For example, dividends paid to any of the following entities are exempt from DWT:

- a 5% parent company resident in the EU under the EU Parent Subsidiary Directive;
- a company or person resident in an EU/treaty country and not under the control of Irish residents;
- a company that is not resident in an EU/treaty country but is controlled by a person(s) who is/are resident in an EU/treaty country and which person(s) is/are not under the control of a person(s) resident outside an EU/treaty country; or
- a listed company or a 75% subsidiary of a listed company.

In each case, in order to avail of the exemption a declaration must be filed with the dividend paying company before the dividend is paid. There is no declaration required for the EU Parent Subsidiary Directive to apply.

7.0

IRELAND AS A LOCATION FOR SERVICES

7.0

Ireland's services sector is continuing to thrive. The attraction of Ireland as a business services location can largely be attributed to the positive approaches of the Irish government and their agencies to the development of inward investment infrastructure, membership of the EU, a very competitive corporation tax regime and availability of world class talent. Many multinational groups have established centralised group support services in Ireland for these reasons. There is a network of industry support service operations in Ireland including professional advisors, accountants, lawyers, corporate service providers and specialised lease management operations which help to service all types of industries.

There are many support 'services' that a shipping company could consider locating in Ireland, for example:

» **Group treasury activities and services:**

  – Cash pooling activities
  – Lending activities
  – Foreign exchange management
  – Hedging services
  – Factoring services
  – Debt raising activities

» **Group shared services activities:**

  – Operational excellence
  – Centralisation of key skills
  – Marketing
  – Call centres/ sales service centres
  – Bookkeeping
  – Accounting
  – Back office administration
  – Ship broking
  – Trading desks

» **Management services.**

» **Advisory services.**

» **Services involving the provision of people for manning operations of shipping groups.**

TAXATION

The profits from trading activities are taxed at 12.5% in Ireland and this is a key part of the offering for Ireland when a services company is explored in Ireland. In the vast majority of cases involving the provision of services there will be no doubt that the activities would constitute a trade and the profits would be taxable at 12.5%. Whether or not a trade is being carried on is determined by the facts and circumstances of each case and there is no bright line test as to what constitutes a trade.

Trading presupposes that the company concerned is carrying on business activities from which its income derives. The activities will vary depending on the nature of the trade and will require people with the skill and authority necessary to carry them out. Outsourcing of activities would not necessarily prevent a company's income being taxed as trading income. Where outsourcing is involved the company must demonstrate how it conducts, manages and controls the outsourced part of its business.

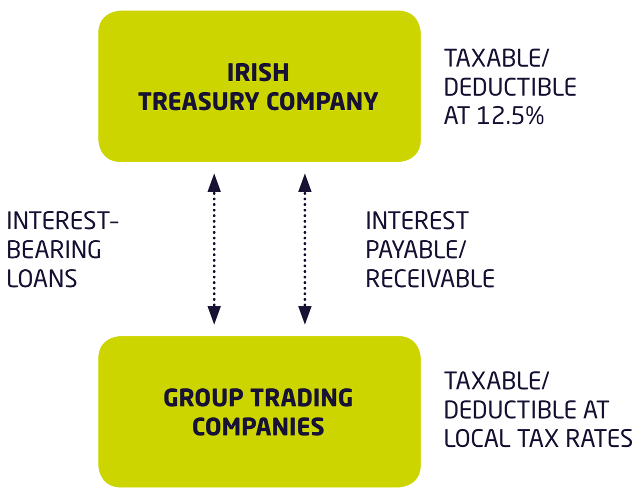
Certain types of activity are more likely to be in the nature of an investment rather than a trade. In general where a company owns an asset and the mere ownership of that asset produces an income, the company's income from this asset will not be trading income. Routine ancillary services such as invoicing or accounting would not change the nature of the income to trading income where it is primarily generated by the ownership of the asset.

For group service companies such as a group treasury operation the company will need to have employee(s) with the requisite skill and experience to operate the trade and regular activity.

GROUP TREASURY SERVICES

By centralising a group's treasury activities in Ireland, a shipping group can reduce its overall effective rate of tax.

» The Irish treasury company would make funding loans and manage any surplus cash of group trading companies.



- Profits arising in the group treasury company will be taxable at 12.5% if the treasury activities can be regarded as ‘trading’.
- Tax deductions at local rates in the trading companies should also be available for any interest payments made to the treasury company.
- Positive tax arbitrage.
- It is important to ensure that there is sufficient substantive management activity in Ireland (to ensure the trading test is passed).
- No thin capitalisation[8] legislation in Ireland but it is important to bear in mind that there may be thin capitalisation requirements in the jurisdictions where the trading companies are located.

7.1 INTERNATIONAL SHIPPING SERVICES CENTRE (ISSC)

There is a proposal for an International Shipping Services Centre in Dublin which is a private sector initiative supported by Irish government agencies. It is anticipated that the ISSC will become a worldwide centre of excellence for maritime commerce and would provide an excellent support network for shipping companies operating in Ireland. This would also provide an ideal location for organisations looking to establish ancillary and support services to shipping companies located within the ISSC and internationally.

8. Thin capitalisation rules apply in many countries to limit the amount that a company can claim as a tax deduction on interest based on debt: equity ratios.

8.0

APPENDIX A
IRELAND'S TAX TREATY NETWORK

IRELAND'S TAX TREATY NETWORK

Albania
Armenia
Australia
Austria
Azerbaijan #
Bahrain
Belarus
Belgium
Bosnia Herzegovina
Botswana +
Bulgaria
Canada
Chile
China
Croatia
Cyprus
Czech Republic
Denmark
Egypt
Estonia
Ethiopia #
Finland
France
Georgia
Germany
Greece
Hong Kong
Hungary
Iceland
India
Israel
Italy
Japan
Jordan #
Korea (Rep of)
Kuwait
Latvia
Lithuania
Luxembourg
Macedonia
Malaysia
Malta
Mexico
Moldova
Montenegro
Morocco
Netherlands †
New Zealand
Norway
Pakistan †
Panama
Poland
Portugal
Qatar
Romania
Russia
Saudi Arabia
Serbia
Singapore
Slovak Republic
Slovenia
South Africa
Spain
Sweden
Switzerland
Thailand +
Turkey
Turkmenistan #
Ukraine +
United Arab Emirates
United Kingdom
United States
Uzbekistan
Vietnam
Zambia

+ Awaiting ratification
† Treaties are being renegotiated
# In the pipeline

9.0

APPENDIX B
COMPARISON CHART WITH OTHER REGIMES

COMPARISON CHART WITH OTHER REGIMES

	Ireland	UK	Netherlands	Germany	Norway	Denmark	Greece	US	Japan	Singapore	Hong Kong	Marshall Islands
No obligation for the group to manage vessels in the territory	✗	✗	✗	✗	✓	✗	✗	✓	?	?	✓	✓
No flag obligation or local territory registration obligation*	✓	✗	✗	✗	✗	✗	✓	✗	✗	✓	✗	✗
No training obligations	✓	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Capital gains on vessels included and/or exempt from normal tax	✓	✓	✓	✓	✓	✓	✓	✗	✗	✓	✓	✓
Dividends from overseas subsidiaries included and/or exempt from normal tax	✓	✓	✗	✓	✓	✓	✗	✗	?	✓	✗	✓
Ship management income included as a core activity and/or exempt from normal tax**	✓	✗	✗	✗	✗	✗	✗	✗	✗	✓	✗	✓
No charge on exiting the regime early***	✓	✓	✗	✓	✓	✓	✓	✓	✗	✓	✓	✓
Treaty access	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✗
No CFC	✓	✗	✗	✗	✗	✗	✓	✗	✗	✓	✓	✓

* Most EU/EEA territories do not have a local flag obligation but refer to EU/EEA flag obligations.
** Many other territories allow crew and technical management to qualify.
*** For Ireland and UK there is generally no exit charge unless the company obtained relief from capital gains tax on disposal of assets while in tonnage tax regime – this relief is clawed back on early exit.

All territories included in chart have tonnage tax regimes except Singapore, Hong Kong and Marshall Islands. Singapore is a wide ranging exempt regime and no tax arises in Marshall Islands for international shipping activities. Hong Kong has a specific regime which exempts specific Hong Kong shipping profits.

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