



Irish Tonnage Tax –
Delivering Global Competitive Advantage

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Irish Tonnage Tax – Delivering Global Competitive Advantage

Irish Tonnage Tax has been introduced to support the development of a new, innovative, world-class shipping services cluster. Through careful development, Ireland has become a global player in a wide range of highly skilled-high tech industrial and service sectors. The country is now recognised as a leading European location for financial services firms, ICT, shared services and pharmaceuticals.

Ireland is developing an environment that will support a modern and competitive shipping services cluster. A closer look at Ireland will reveal a business-focused country that has attracted over 1,200 international companies in the last decade. International firms have benefited from a committed policy by successive Irish Governments to drive down business taxation and offer stability and certainty to Irish and international businesses.

- > Attractive Tax Rates
- > Ship Managers Qualify – No Ownership Requirement
- > Vessel Financing Advantages
- > No Training Restrictions
- > Ship Owners and Bareboat Charterers Benefit
- > Time Charter—in Three Times Your Owned/Bareboat Tonnage
- > Flag Blind – No Vessel Registration Requirement
- > A Broad Variety of Vessels Qualify
- > A Wide Range of Income Qualifies
- > Extend Your Time in Tonnage Tax for 10 Years at Any Time
- > An English-speaking Euro Economy
- > An Excellent Double Tax Treaty Network

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Why Ireland?

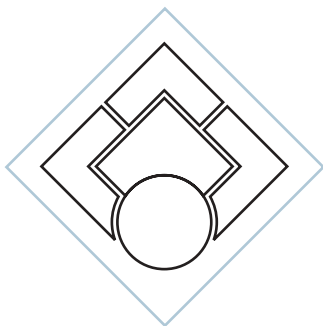
Irish Tonnage Tax is a unique and powerful incentive.

It is based on a notional profit taxed at 12.5%. This incentive offers an unrivalled taxation environment where you will benefit from:

- > Flexibility to invest and to choose the methods of financing most suitable to your company
- > Certainty regarding your company's annual tax liability
- > Clarity in terms of how it affects your company's financial structure
- > Competitiveness in a global marketplace where rivals seek out every cost advantage
- > Compatibility with the fiscal regimes of other countries. Ireland has an excellent network of tax treaties primarily with EU and OECD countries.

Does your company qualify?

Find out more in Section 1.3 – 'Who Qualifies?'



"Ireland has become one of the premier locations of choice for international banking, investment fund management and administration, corporate treasury management and insurance operations. With quick one-stop shops and an avoidance of bureaucracy, we have tried to lure them in. Giving them certainty as to the future direction of tax policy has also been important to me. It certainly encourages business to stay, and to grow."

MR CHARLIE MCCREEVY, IRISH MINISTER FOR FINANCE ADDRESSING THE WORLD LEADERSHIP FORUM IN NEW YORK CITY, OCTOBER 2002.

Exceptional Tonnage Tax Rates

Ireland operates one of the lowest corporate tax rates in the OECD at 12.5%.

Because tonnage tax regimes are normally calculated by applying a fixed notional profit based on the size of your vessel, and then applying the standard corporation tax rate, Ireland offers an extremely attractive tonnage tax regime.

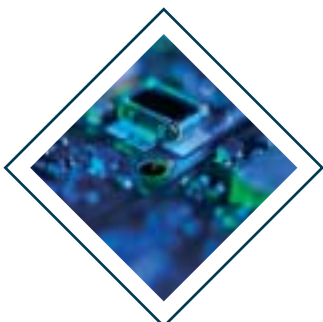
The Irish tonnage tax is the lowest in the EU by virtue of Ireland's low standard corporation tax rate and it makes the proposition of establishing a tonnage tax operation all the more appealing.

Use the Calculator Card in this pack to calculate the Tonnage Tax you would pay on one of your vessels under the Irish regime.

For information on other Irish tax benefits relating to:

- > Withholding Taxes
- > Value Added Tax
- > Income Tax and Non-Domicile Residency Advantages.

Find out more in Section 5 – 'An Exceptional Tax Environment'.



A Permanent Tax Saving

Many tonnage tax regimes worldwide only grant a deferral of tax to companies participating in their regimes. The Irish Tonnage Tax regime offers a permanent tax saving to the participating companies.

Vessel Financing Advantages

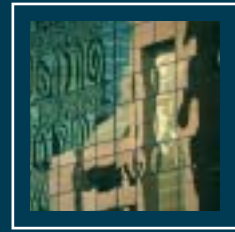
Imagine simple and clear vessel financing that is not driven by your future tax bill? Ireland's Tonnage Tax regime delivers it.

Your company can buy and sell vessels without worrying about Capital Gains Tax exposure.

You can embark on a newbuilding programme that is not built around offsetting capital allowances against profits.

Leasing Benefits

There are no restrictions on international leasing in the Irish Tonnage Tax regime.



Ship Management Benefits

Under the Irish regime there is no ownership requirement for ship management companies.

Dedicated ship management companies can choose to have their profits from the management of vessels taxed under the same criteria as ship owners. This is a crucial aspect of the Irish tonnage tax regime and addresses the importance of the services and expertise provided by the ship managers.

Strands of management activities include:

- > Technical Management
- > Commercial Management
- > Crewing
- > Sale and Purchase Services
- > Financial Consulting Services
- > Technical Services.

The inclusion of ship managers opens a whole new range of beneficial relationships between the managers and the owner.

Tonnage tax offers a valuable opportunity for international owners to have vessels managed by third party or group ship management companies without the need to disturb existing financial arrangements.

Flag Blind – No Registration Requirement

We believe that shipping companies will choose the Irish Flag on its own merits. A company will have many reasons for choosing a flag. The Irish Tonnage Tax regime is not in the business of creating restrictions, it is an incentive, which is why your company can flag wherever it likes and still enjoy our regime.

Section 2 – ‘A World Class Register for World Class Shipping’ outlines the considerable changes that have been made to the Irish Register and the benefits that will accrue to your company by registering under the Irish Flag.

No Training Requirements

The Irish Government has adopted a different approach to encouraging seafarer training. **There are no financial penalties or commitments relating to seafarer training in the Irish Tonnage Tax regime.**

The Government is aware that the difficulty is not one of encouraging shipping companies to undertake training but to attract young people to the sector. For this reason the Government is investing in:

- > A €58m state-of-the-art National Maritime College
- > New and more appropriate educational courses
- > Grants for trainee officers
- > Increased tax allowances for seafarers.

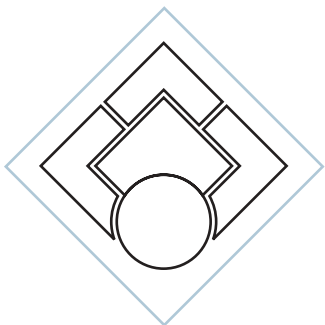
Find out more in Section 3 – ‘An Investment in Maritime Excellence’.

Three Times Your Owned/Bareboat Tonnage Qualifies

Under the Irish regime all of the company’s owned and/or bareboat chartered-in tonnage qualifies for the regime, provided they are ‘qualifying vessels’. Furthermore, a company is entitled to charter-in up to three times its owned and/or bareboat chartered tonnage on a time-charter basis. Income generated from this tonnage also qualifies under the tonnage tax regime.

Find out more in Section 1.3 – ‘Who Qualifies?’

How Your Company Can Benefit?



How will Irish Tonnage Tax Affect Your Tax Bill?

Simply? It lowers it dramatically.

A shipowner with a high tax liability will benefit greatly under Irish Tonnage Tax, ultimately paying a fraction of the tax that would be normally required under a traditional corporate tax regime.

The regime applies a notional profit based on the size of the vessel. This notional figure is then subject to the Irish corporation tax rate of 12.5%.

Ultimately it means that most companies generating profit can avail of a:

- > Vastly reduced tax bill, a bill that has no relationship to the real profits generated by the company
- > A tax bill that alters only when the relevant fleet tonnage changes.

How a PLC can Benefit

This Irish incentive offers a vital advantage. By availing of the tonnage tax you can:

- > Announce high profits without a correspondingly high tax liability
- > Simplify tax planning
- > Reap all the benefits of shareholder value, achieve greater earnings per share, and the resulting possibilities to access new finance and investment.

For information on:

- > **Withholding Tax Advantages**
- > **VAT Benefits**
- > **Income Tax Arrangements.**

Find out more in Section 5 – ‘An Exceptional Tax Environment’.

A Broad Variety of Vessels

Essentially, if you operate a commercial merchant seagoing vessel, it qualifies.

Find out more in Section 1.3 – ‘Who Qualifies?’

A Wide Range of Income

In some tonnage tax regimes, your company will be unsure if some of your income qualifies or not. In Ireland we provide clarity in the area of qualifying income. In addition the Irish Tonnage Tax regime will allow your company to benefit from a broad range of income. A full list follows but here are some of the qualifying activities that make our tonnage tax so attractive:

- > If you receive shipping distributions or profits from another foreign-based company in your group they are exempt from taxation outside of tonnage tax
- > Your company can include income from ancillary activities provided to passengers on board, such as income from shops, bars, restaurants, franchises income and much more
- > Income from container rentals carried on board.

Extend Your Time in Tonnage Tax

One of the most significant differences between a tonnage tax regime and that of normal corporation tax regimes is the certainty that the tonnage tax regime offers to a company. There are very few taxation schemes where a company can accurately calculate their tax bills for a 10 year period into the future.

A notable difference between the Irish and some other EU Tonnage Tax regimes is that you can elect to stay in the Irish Tonnage Tax for a further 10 years AT ANY TIME while in the regime.

A Euro Economy

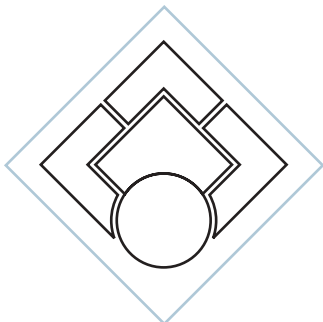
By joining the Irish Tonnage Tax regime you can benefit from one of the world's largest currencies. The Euro is a stable and strengthening currency. At present Ireland is the only English-speaking member of the EU using the Euro currency.

An Excellent Network of Double Taxation Treaties

Ireland has tax treaties with a large number of countries including all of the world's major economies. New treaties are regularly being negotiated and updated.

Find out more in Section 5.5 – 'Double Taxation Relief'.

Who Qualifies?



Qualifying Companies

- > Shipowners
- > Bareboat Charterers
- > Ship Managers.

In order for all of the above to qualify for the Irish Tonnage Tax regime they must fulfil some basic requirements, they must:

- > Operate qualifying ships
- > Be within the charge to Irish Corporation Tax
- > Undertake the strategic and commercial management of those ships in Ireland.

The shipping industry operates complex corporate structures and complicated business relationships. Our Revenue Commissioners recognise this and the tax is administered by the Revenue Commissioners 'Incentives Branch' so that it can provide a number of real advantages for all shipping companies that enter the regime.

Group Election

If a foreign group operates more than one company in Ireland, and they both qualify for the Irish Tonnage Tax, then an election by one company means they both must enter for the regime. Group election extends only to Irish-based qualifying companies.

It is important to note that ONLY qualifying group companies incorporated in Ireland are required to elect for tonnage tax together. This requirement does not extend to foreign groups who place a single company in Ireland.

Qualifying Vessels

If your company operates a commercial seagoing vessel it can qualify for the regime. The official description for a qualifying vessel is as follows:

“Seagoing vessels of an adequate size to engage in reasonable commercial operations and which complies with all the requirements for navigation at sea imposed by the competent authorities of any country or territory, certificated as such under the International Load Line or the SOLAS (Safety of Life at Sea) Convention.”

For clarity, simplicity and most importantly, flexibility, the Irish regime identifies vessels that are excluded rather than list the wide range of vessels that qualify.

For excluded vessels find out more in Section 5.4 – ‘Tax Incentives’.



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What Income Qualifies?

The Irish Tonnage Tax regime is a flexible regime that covers a wide range of sources but the most important tends to be direct income, income from the provision of shipping related services and ancillary income.

Direct Shipping Income

Carriage of Passengers and Cargo

Naturally, the direct income that qualifies will include income from the transport by sea of cargo and passengers on a qualifying vessel operated by the company.

Where Transport is an Ancillary Income

The Irish Tonnage Tax regime will also accept the income from transport provided for non-tonnage tax activities. This allows companies involved in activities such as cable-laying to benefit from income related to transport. It excludes the income from cable-laying or diving support, construction work, etc. It will be necessary for a company to apportion the income for tonnage and non-tonnage tax activities.

Non-tonnage tax activities are generally taxed at the normal corporation tax rate of 12.5%.

Towage, Salvage and Marine Assistance

Income from towage, salvage and marine assistance services provided by a ship operated by the company is included in the Irish Tonnage Tax regime. However, it is to be noted that profits from the sale of salvaged goods would not be relevant shipping income.

Chartering

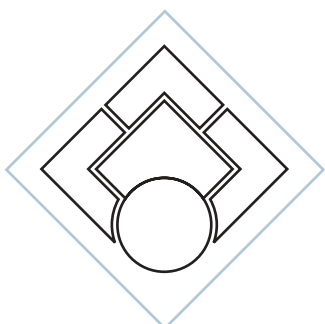
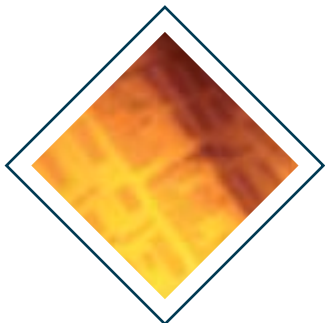
The Irish Tonnage Tax regime applies to any income a company receives from chartering activities where the company retains control over the operation and crewing of the vessel. This includes time and voyage charters but excludes income from the bareboating out of a vessel.

Income from Shipping Related Services

Ship Management Activities

The inclusion of ship management operations is central to the Irish Tonnage Tax regime. Income from the management of vessels under the possession and control of the operation, including the provision of crew, purchasing of fuel etc. are all covered.

A very attractive aspect of the Irish Tonnage Tax regime is that there is no ownership requirement on the ship manager. The manager can benefit from the income generated from its owned vessels under the Irish regime as well as traditional ship management income.



Commercial Management and Other Activities

The Irish Tonnage Tax regime takes account of a broad range of commercial management and other activities including:

- > Booking cargo or passengers
- > Transport on another ship if there is a single contract which includes transport on a vessel operated by the company
- > Embarkation and disembarkation of passengers from a vessel operated by the company.

Cargo – Loading and Unloading

Tonnage tax in Ireland also encompasses the loading and unloading of cargo on a vessel operated by the company and the income arising from this activity. This includes:

- > The movement of containers within a port area immediately before or after the voyage
- > The consolidation or breaking of cargo carried on a vessel operated by the company immediately before or after the voyage.

Rental of Containers

The company is entitled to include income from the rental of containers carried on board a qualifying vessel.

Ancillary Income

One of the primary advantages of the Irish Tonnage Tax regime is the inclusion of a wide range of income sources for the shipping company. These sources include income that can be substantial for certain shipping operations.

Provision of Services and Goods on Board

The Irish regime includes income generated from the provision, for consumption on board, of services such as the operation of cinemas, bars and restaurants, shops, etc., which are ancillary to the transport of cargo and passengers.

Franchise Income

The income from contracting out or franchising to specialist operators of the on-board services just described, provided goods and services are consumed on board fall within the Irish Tonnage Tax regime.





Distributions from Overseas Companies

A tonnage tax company may receive distributions from overseas companies, where the distributions relate to income that would qualify for Irish Tonnage Tax regime (for example, if the income being remitted to Ireland falls into one of the categories outlined above then this will be included as tonnage tax income and effectively NOT taxed).

Foreign Exchange Transactions

Your company may also, during the course of its normal business, make certain gains from foreign exchange transactions. This income is also included in the tonnage tax. However, it is worth stressing that this income must be generated during the normal course of business activities and not engaged in as a separate activity.



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How to Calculate Your Tonnage Tax Bill



Calculating your tax bill could not be easier. The table below lists the 'Fixed profit per day' rate.

Take your vessels net tonnage and apply the rates according to the formula provided.

When you have your notional 'profit' figure apply Ireland's standard corporation tax rate of 12.5%.

You now have your tax bill.

FIXED PROFIT RATES

Proposed scale of charges based on vessels net tonnage in Euro	Fixed profit per day in Euro
For each 100 tons up to 1,000 net tons	€1.00
For each 100 tons between 1,000 and 10,000 net tons	€0.75
For each 100 tons between 10,000 and 25,000 net tons	€0.50
For each 100 tons above 25,000 net tons	€0.25

Please see overleaf for sample calculation tables.

The table opposite shows a sample calculation of the 'MV PANAMAX' — a vessel of 19,500 net tons.

MV PANAMAX

Flag:	Liberia	Calculations in Euro
Net Tons:	19,500	
1,000 net mts	$1,000 \div 100 = 10 \times \text{€}1.00 \times 365 \text{ days}$	€3,650.00
9,000 net mts	$9,000 \div 100 = 90 \times \text{€}0.75 \times 365 \text{ days}$	€24,637.50
9,500 net mts	$9,500 \div 100 = 95 \times \text{€}0.50 \times 365 \text{ days}$	€17,337.50
ANNUAL TAXABLE TONNAGE PROFIT		€45,625.00
Then apply corporation tax at 12.5% to obtain the Tonnage based corporation tax bill for a 19,500 ton vessel.		€5,703.12 THIS IS YOUR TAX BILL

The table opposite shows a sample calculation of the 'MV SUEZMAX' — a vessel of 45,000 net tons.

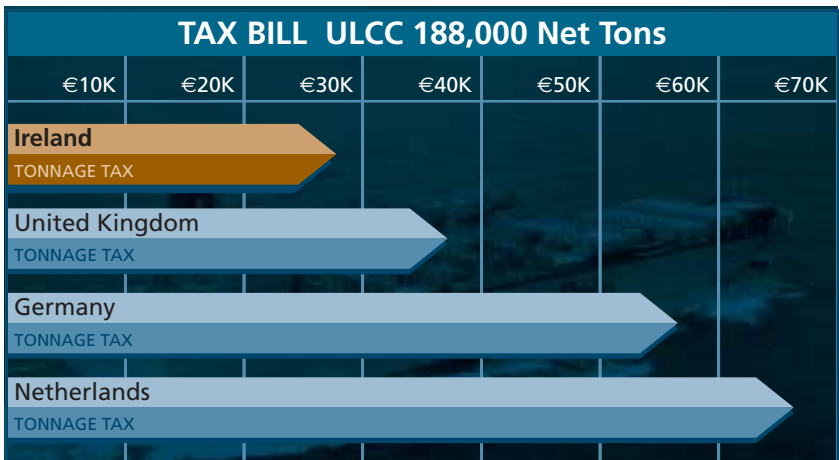
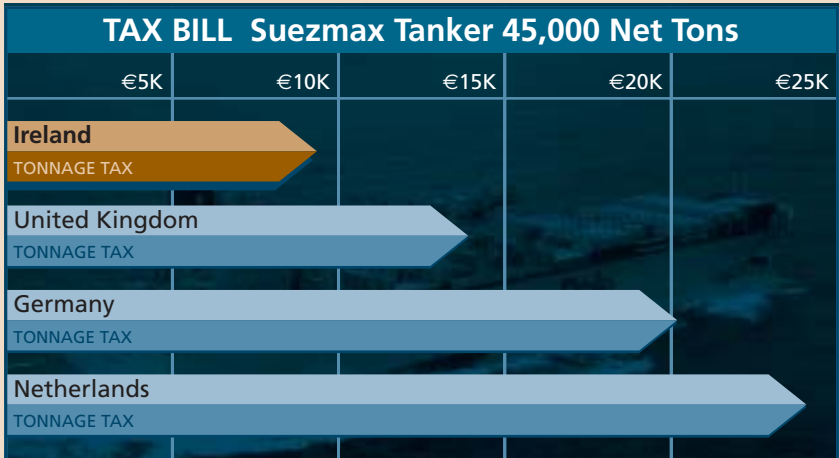
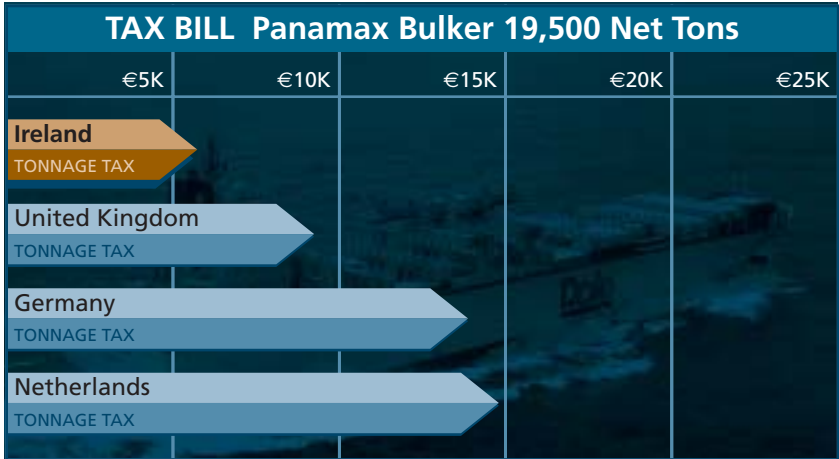
MV SUEZMAX

Flag:	Panama	Calculations in Euro
Net Tons:	45,000	
1,000 net tons	$1,000 \div 100 = 10 \times \text{€}1.00 \times 365 \text{ days}$	€3,650.00
9,000 net tons	$9,000 \div 100 = 90 \times \text{€}0.75 \times 365 \text{ days}$	€24,637.50
15,000 net tons	$15,000 \div 100 = 150 \times \text{€}0.50 \times 365 \text{ days}$	€27,375.00
20,000 net tons	$20,000 \div 100 = 200 \times \text{€}0.25 \times 365 \text{ days}$	€18,250.00
ANNUAL TAXABLE TONNAGE PROFIT		€73,912.00
Then apply corporation tax at 12.5% to obtain the Tonnage based corporation tax bill for a 45,000 ton vessel.		€9,239 THIS IS YOUR TAX BILL

The table opposite shows a sample calculation of the 'MV ULCC' — a vessel of 188,000 net tons.

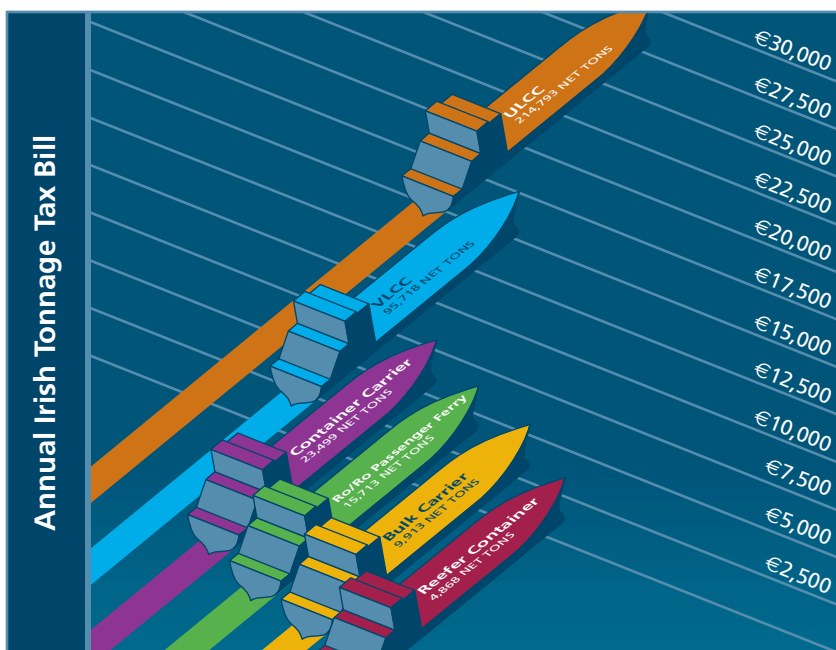
MV ULCC

Flag:	Norway	Calculations in Euro
Net Tons:	188,000	
1,000 net tons	$1,000 \div 100 = 10 \times \text{€}1.00 \times 365 \text{ days}$	€3,650.00
9,000 net tons	$9,000 \div 100 = 90 \times \text{€}0.75 \times 365 \text{ days}$	€24,637.50
15,000 net tons	$15,000 \div 100 = 150 \times \text{€}0.50 \times 365 \text{ days}$	€27,375.00
163,000 net tons	$163,000 \div 100 = 1,630 \times \text{€}0.25 \times 365 \text{ days}$	€148,737.50
ANNUAL TAXABLE TONNAGE PROFIT		€204,400.00
Then apply corporation tax at 12.5% to obtain the Tonnage based corporation tax bill for a 188,000 ton vessel.		€25,550.00 THIS IS YOUR TAX BILL



SOURCE: IMDO, OCTOBER 2002

Annual Irish Tonnage Tax Bill for a Variety of Vessels



How to Calculate Your Tonnage Tax Bill

Calculating your tax bill could not be easier. Choose the vessels you wish to place under the regime. Say, a vessel of 19,500 tons.

The table on the reverse lists the 'Fixed profit per day' rates.

You use these rates to calculate the 'profit' your company makes.

In order to calculate the 'profit' for your vessel and ultimately the tax bill you will use the method of calculation below.

The first 1,000 tons of your vessel is broken into 100 increments and will 'earn' a profit per day per increment of €1.

for example $10 \times 365 \times \text{€}1 = \text{€}3,650$ annual profit.

Follow the remaining steps to calculate your profit for your vessel applying the relevant rates listed in the table.

MV PANAMAX

Flag:	Liberia	Calculations
Net Tons:	19,500	in Euro
1,000 net mts	$1,000 \div 100 = 10 \times \text{€}1.00 \times 365 \text{ days}$	€3,650.00
9,000 net mts	$9,000 \div 100 = 90 \times \text{€}0.75 \times 365 \text{ days}$	€24,637.50
9,500 net mts	$9,500 \div 100 = 95 \times \text{€}0.50 \times 365 \text{ days}$	€17,337.50
ANNUAL TAXABLE TONNAGE PROFIT		€45,625.00
Then apply corporation tax at 12.5% to obtain the Tonnage based corporation tax bill for a 19,500 ton vessel.		€5,703.12 THIS IS YOUR TAX BILL