

Good afternoon

We are the UK Chamber of Shipping, representing the interests of UK-based shipping companies. We have recently been made aware by our Danish counterpart that IFRIC will be considering the treatment of Tonnage Tax under IAS12 at its meeting in early May, and that it is proposed that such taxes would not be considered to be income taxes, even where they have been designed to fall within a fisc's income/corporation tax structure, as is the case in the UK. I am sorry that we did not hear about this in time to meet your date of 13 April for the submission of comments – perhaps because the shipping industry itself was not consulted – but I hope that you will nevertheless take account of our views alongside those of the Danish Shipowners' Association.

In short, we share entirely the views of our Danish colleagues as set out in their submission of 6 April – appended below for reference – in relation to the UK tonnage tax regime.

It should be emphasised that "tonnage tax" is not separate from what we might call "mainstream income tax". The difference is not the tax itself, but the calculation of the taxable profit for certain shipping activities, which is then combined with the taxable profit from other activities or sources of income and a common rate of income tax applied. At least within the European Union, where the concessionary aspects of tonnage tax are firmly controlled under a specific state aid regime, it is normal for companies which have elected for their shipping profits to be calculated under tonnage tax rules to have part of their shipping activities excluded from those rules, for a wide variety of reasons - for example in connection with an ineligibility of a particular ship, a particular trade or a particular income stream, or because particular thresholds have been exceeded (eg flagging restrictions, or proportions of chartered ships). It is common for the profits for a single ship to fall under both heads in any particular year, and for that split to vary from year to year. All this is dealt with at the stage of calculating the taxable profit, not at the stage of levying the tax itself.

We believe that moving that part of income tax paid under tonnage tax rules from the tax charge line to the operating cost line would be confusing for the users of the accounts and would not present clearly the true tax charge for the year, making year-on-year and company-by-company comparisons more difficult.

An additional potential difficulty could arise in relation to tax treaties. It is important that shipping activity taxed under tonnage tax rules is clearly seen to be subject to income tax, which it is, in order to continue enjoy the protections and benefits of tax treaties, and in particular to avoid double taxation.

In the time available we have been able only to prepare this short submission, of which we hope that you will take note. We appreciate that some concern may have been expressed over the different treatment of tonnage tax regimes in different jurisdictions – and it may well be that there are some regimes which are not applied within an income tax context. We hope that the forthcoming meeting of IFRIC will decide definitively not to proceed with the change envisaged in the Tentative Agenda Decisions of 5 March. If it is

decided to defer consideration until a later date for further study, we would be pleased to meet with IASB/IFRIC staff to help take that forward.

Best regards

David Asprey
Head, Shipping Policy & Fiscal Affairs
UK Chamber of Shipping
12 Carthusian Street
London EC1M 6EZ
020 7417 2875

-----Oprindeligt meddelelse-----

Fra: Birgit Gravesen **På vegne af** Peter Bjerregaard

Sendt: 6. april 2009 13:28

Til: 'ifric@iasb.org'

Emne: IFREC - Meeting May 2009

IFRIC – Meeting May 2009

Re. Tentative agenda decisions – IAS 12 Income taxes - classification of tonnage taxes.

In the tentative agenda decisions dated 5 March 2008, IFRIC has noted that tonnage taxes would not be considered to be income taxes in accordance with IAS 12 and would not be presented as part of tax expenses in the statement of comprehensive income.

We disagree with that indication.

"Tonnage Tax" is a term used to refer to different types of taxation. Tonnage tax in Denmark and other European countries is typically an integral part of the corporate income tax system for shipping companies. This includes various elements, one of which is a deemed computation of net shipping income based on the net operated tonnage, employing fixed rates intended to approximate to net income after depreciation of vessels. The tonnage tax system is optional and shipping companies may opt between the regular computation of taxable income and a tonnage based computation. If applicable, this "tonnage taxed" income is then added to other non-tonnage taxed income of the company. The normal income tax rate is then applied on the total income.

Tonnage-based tax on the European model is therefore a tax on deemed net income and should in our opinion be classified as such in the financial statements.

This approach is similar to the treatment of other deemed income taxes that shipping companies incur such as freight taxes.

In our opinion the fact that the taxable income is calculated on a formula basis should not disqualify such taxes as income taxes in accordance with IAS 12.

We look forward to your positive reply.

Yours faithfully,

Danish Shipowners' Association

Peter Bjerregaard
Managing Director

Peter Bjerregaard
Managing Director
Danmarks Rederiforening/
Danish Shipowners' Association
Amaliegade 33
1256 København K
Tel.: + 45 33 11 40 88/Direct tel.: + 45 33 48 92 10
Fax. + 45 33 11 62 10
e-mail: pb@shipowners.dk
web: www.shipowners.dk