

International Accounting Standards Board
International Financial Reporting Interpretations Committee
First Floor
30 Cannon Street
London
EC4M 6XH

15 April 2009

Dear IFRIC Members

Tentative agenda decision – Classification of tonnage taxes

The global organisation of Ernst & Young is pleased to respond to the above tentative agenda decision as published in the IFRIC Update of March 2009.

The question on which the IFRIC was asked for guidance was: “whether a tax based on tonnage capacity can be considered to be an income tax in accordance with IAS 12”.

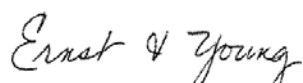
We agree with IFRIC’s tentative decision not to take this item onto its agenda for the reasons noted. However the Update states that ‘Taxes either on tonnage transported or tonnage capacity are based on gross rather than net amounts.’ It is not clear to us whether this reference to gross amounts means that IFRIC’s decision is limited to taxes that are in nature linked to gross amounts. For example, does IFRIC believe that the following scheme falls within the scope of its decision? If so, the reasons for the agenda decision should be revised to make it clear.

In India, a tax scheme is in place, whereby shipping companies can elect to pay taxes based on tonnage capacity rather than a tax on actual income. The details of this calculation are as follows:

- a notional income is determined by applying a rate to the tonnage capacity of the ship based on the number of days the ship has operated during the year, thereby representing a substitute for net income;
- a tax charge is determined by applying the normal corporate rate applicable for the year to the notional income;
- the tax charge is payable even if the entity is in an actual loss situation.

Please contact Leo van der Tas on +31 10 4068114 should you have any questions regarding the above.

Yours faithfully

A handwritten signature in cursive script that reads 'Ernst & Young'.