

Maltese Shipping - The Tonnage Tax System and Advantages for Shipping Companies

Under the Malta Tonnage Tax System, tax is dependent on the tonnage of the vessel or fleet belonging to a particular ship-owner

By **Jonathan Vassallo**, 21st September 2018

Over the past decade, Malta has consolidated its status as an international, Mediterranean centre of maritime excellence. Currently Malta has the largest shipping register in Europe and the sixth largest in the world. In addition, Malta has become a world leader in terms of commercial yacht registration.

In order to avoid the risk of shipping companies relocating or flagging to low-tax countries outside the EU, the European Commission's 2004 Guidelines on State Aid to Maritime Transport (commercial shipping activities) was introduced to allow Member States to implement financial benefits for shipping companies. One of the most important benefits was to replace traditional methods of taxation with a tonnage tax.

In December 2017, the European Commission approved the Maltese tonnage tax regime for a period of 10 years, following a review of its compatibility with EU State Aid Rules.

The Maltese Shipping Tonnage Tax System

Under the Malta Tonnage Tax System, tax is dependent on the tonnage of the vessel or fleet belonging to a particular ship-owner or ship-manager. Only companies that are active in maritime transport are eligible under the Maritime Guidelines.

Standard corporate tax rules do not apply to shipping activities in Malta. Instead shipping operations are subject to an annual tax consisting of a registration fee and annual tonnage tax. The rate of tonnage tax reduces according to the age of the vessel.

- As an example, a trading ship measuring 80 metres, with 10,000 gross tonnage, built in the year 2000, will pay a fee of €6,524 on registration and €5,514 annual tax thereafter.

The smallest category of ship is up to a net tonnage of 2,500 and the largest, and most expensive, are ships over 50,000 net tonnage. Charges are reduced for ships in the 0-5 and 5-10 year age categories respectively and are greatest for those 25-30 years old.

Taxation of Shipping Activities in Malta

As detailed above:

- Income derived from shipping activities by a licensed shipping organisation is exempt from income tax.
- Income derived from ship management activities by a ship manager is exempt from income tax.

In all other circumstances:

- Shipping companies incorporated in Malta are taxed on their worldwide income and capital gains.
- Shipping companies not incorporated in Malta, but where control and management are exercised in Malta, are taxed on local income and capital gains and on foreign source income remitted to Malta.
- Shipping companies not incorporated in Malta and where management and control are not exercised in Malta, are taxed on income and capital gains arising in Malta.

Ship Management Activities

Following a European Commission ruling, Malta has amended its tonnage tax law.

Ship management activities are now included in the tonnage tax system. This means that ship managers are allowed to pay a tonnage tax which is equivalent to a percentage of the tonnage tax paid by the owners and/or charterers of the ships managed. Any income derived by a ship manager from ship management activities is deemed to be income derived from shipping activities and is therefore exempt from income tax.

Ship management organisations can benefit from the tonnage tax measures, provided that the following conditions are met:

- must be a ship management organisation established in the European Union (EU) or the European Economic Area (EEA);
- have assumed responsibility for either technical and/or crew management of a ship;
- must comply with the international standards and requirements of the EU;
- must specifically include shipping activities in their objects and must register with the Registrar General accordingly;
- maintain separate accounts, clearly distinguishing the payments by and receipts of the ship manager with respect to ship management activities from those not connected to such activity;
- the ship manager opts to pay an annual tonnage tax on all ships;
- At least two-thirds of the tonnage of the ships that the ship manager is providing ship management activities for must be managed in the EU and EEA;
- the tonnage that the ship manager provides ship management activities for must satisfy the flag-link requirement.

Maltese Tonnage Tax Eligibility

Tonnage tax is applied to the activities of a shipping company as follows:

- core revenues from shipping activities;
- certain ancillary revenues that are closely connected to shipping activities (capped at a maximum 50% of a ship's operating revenue); and
- revenues from towage and dredging (subject to certain conditions).

Maltese shipping organisations must register with the Finance Minister by submitting the name of the organisation, the registered office address and the name and tonnage of the ship it wishes to own or operate. The vessel must be declared a 'Tonnage Tax Ship' or a 'Community Ship', with a minimum net tonnage of 1,000 and be entirely owned, chartered, managed, administered or operated by a shipping organisation.

A shipping company can only benefit from the Maltese Tonnage Tax scheme if it has a significant part of its fleet flying the flag of a European Economic Area (EEA) Member State.

Additional Reasons to Consider Ship Registration in Malta

There are a number of additional reasons to consider ship registration in Malta:

- The Malta registry is on the Paris MOU and Tokyo MOU white lists.
- Vessels registered under the Malta Flag have no trading restrictions and are given preferential treatment in many ports.
- Registration of vessels under the Maltese flag takes place in two stages.
A vessel is provisionally registered for a six-month period. This is an easy and fast process. During this provisional registration period the owner is required to submit additional documentation and then the vessel is permanently registered under the Maltese flag.
- There is an exemption from stamp duty in Malta on the registration and/or sale of a ship, shares relating to a licensed shipping organisation and the registration of a mortgage relating to a ship.

Additional Information

If you would like further information regarding the Malta Tonnage Tax System or the registration of a ship and/or yacht in Malta, please contact Jonathan Vassallo at the Dixcart office in Malta: advice.malta@dixcart.com