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# **Ireland – The New Location for International Shipping Operations**

## IRELAND – THE SHIP HAS SAILED IN

### Introduction

The establishment by the Government 3 years ago of the Irish Maritime Development Office (“IMDO”) indicates a strong commitment to the Irish shipping/shipping services sector. This commitment was further emphasised by the development of a new National Maritime College of Ireland – an investment of €58 million. The IMDO (which is Ireland’s first dedicated development, promotional and marketing agency for shipping, shipping services and seafarer training) has a very broad statutory remit to promote the expansion of Irish shipping and related industries.

The approval in December 2002, by the EU of Ireland’s tonnage tax regime together with the proposal to radically overhaul our mercantile marine legislation in order to bring administration and services up to international best practice, has gone a long way towards achieving this objective and making Ireland an attractive location in which to headquarter your shipping operations.

Ernst & Young supports and endorses these initiatives and is in regular contact with the IMDO and the Government on shipping related matters.

## Why choose Ireland as a location for your shipping operations?

### Shipping and Flag Reasons

- Investment in new National Maritime College, to be completed in October 2004, will provide state of the art training facilities;
- Flexible manning requirements – Irish Certificate of Equivalent Competence required;
- Dedicated agency to promote the development of the industry in Ireland and to facilitate and advise, as much as possible, companies looking to set up in Ireland;
- Speedy processing of applications to fly the Irish flag;
- Irish flag is politically neutral and has an international reputation for safety and quality;
- Ability to flag out;
- Bareboat registration;
- Ireland is a full member of the European Union and the Organisation for Economic Co-operation and Development, it has adopted the euro as its currency and has a stable political environment.

### Business and Tax Reasons

- A large number of multinationals have established operations in Ireland over the last 40 years, as a result, Ireland is one of the most open economies in the world;
- Corporation tax rate of 12.5%, one of the lowest in the EU;
- Competitive tonnage tax regime;
- Attractive location for tax efficient financing structures;
- Extensive network of double taxation agreements;
- English is the spoken language;
- Time zone offers the maximum overlap between Asia and North America;
- Well established shipping, banking, insurance, financial and professional community;
- State of the art digital telecommunications infrastructure;
- Competitive cost base;
- Well regulated economic environment;
- Plentiful supply of young, highly educated, computer literate, multi-lingual personnel together with a low salary cost base;
- Frequent flights from Dublin airport provide easy access to all major European and US cities;
- Pro-active and pro-business attitude on the part of the Irish authorities which results in a sympathetic and positive approach to the needs of multi-national shipping groups establishing in Ireland.

## Overview of proposed changes to Mercantile Marine Legislation

The Irish Government is currently reviewing changes to the Mercantile Marine laws governing the Irish Ship Register following a report commissioned by the IMDO in 2000. Changes to legislation are expected to be passed in 2003 and will facilitate an overhaul of the Irish Ship Register, bringing the administration and services up to international best practices. Provisions in this legislation are expected to allow the following:

- Ability for Irish owned ships to register on a foreign register;
- Bareboat registration;
- Facilities to register vessels for a provisional period;
- Greater access for non-Irish residents to the Irish register.

## Overview of Ireland's tax regime

- 12.5% tax rate on trading income (would include shipping income), 25% tax rate on passive income e.g. investment income;
- Shipping companies can opt for normal tax regime i.e. 12.5% on tax adjusted actual shipping profits or the favourable tonnage tax regime i.e. 12.5% on notional shipping profits;
- Tax deduction for financing costs where company opts for normal tax regime;
- Capital allowances to write off cost of ship over 8 years where company opts for normal tax regime;
- 20% capital gains tax rate;
- No withholding tax on interest payments to companies resident in an EU Member State or country with which Ireland has a tax treaty;
- Ability to repatriate dividends free of withholding tax to parent company resident in an EU Member State or country with which Ireland has a tax treaty;
- No general transfer pricing rules. However, tonnage tax companies are subject to specific rules (see below);
- No thin capitalization rules;
- Extensive network of double taxation agreements;
- Exemption from stamp duty on the sale or transfer of ships;
- Qualifying shipping activities zero rated for VAT purposes;
- No freights taxes;
- Special tax allowances for seafarers.

## Tonnage Tax Regime

- Effective from 1 January 2003
- Can opt for normal tax regime i.e. 12.5% on tax adjusted actual shipping profits or tonnage tax regime i.e. 12.5% on notional shipping profit;
- Irish resident companies which are shipowners, bareboat charterers or ship managers can qualify for the regime;
- Applies to “relevant shipping income” (see overleaf), does not apply to investment income;
- Notional profits calculated based on net tonnage at fixed rate per day for each 100 net tons as follows:

Up to 1,000 net tons	€1.00
Between 1,000 and 10,000 net tons	€0.75
Between 10,000 and 25,000 net tons	€0.50
Above 25,000 net tons	€0.25

- Relief from capital gains tax on assets used for tonnage tax activities;
- Election to avail of tonnage tax regime valid for 10 years after which it can be renewed;
- Specific transfer pricing rules to ensure arms length transactions and financing between the tonnage tax company and other related companies and between tonnage tax activities and other activities within the one company;
- Shipowners and bareboat charterers may charter in up to 3 times their owned/bareboat tonnage on a time charter basis;
- No training restrictions;
- Ability to flag out.
- To qualify, the strategic and commercial management of the ships must be carried on in Ireland.

### *Calculating your Tonnage Tax Bill for a vessel of 45,000 net tons*

Net Tons	Rate Per 100 Tons per day	Notional Profit
1,000	€1	€3,650
9,000	€0.75	€24,637.50
15,000	€0.50	€27,375
20,000	€0.25	€18,250

Annual Taxable Tonnage Profit	€73,912
Irish corporation tax @12.5%	€9,239

## Relevant Shipping Income

Relevant shipping income means the company's income from:

- The carriage of passengers by sea in a qualifying ship operated by the company;
- The carriage of cargo by sea in a qualifying ship operated by the company;
- Towage, salvage or other marine assistance by a qualifying ship operated by the company, excluding income from any such work undertaken in a port or an area under the jurisdiction of a port authority;
- Transport in connection with other services of a kind necessarily provided at sea by a qualifying ship operated by the company;
- The provision on board a qualifying ship operated by the company of goods or services ancillary to the carriage of passengers or cargo, but only to the extent that such goods or services are provided for consumption on board the qualifying ship;
- The granting of rights by virtue of which another person provides or will provide such ancillary services on board a qualifying ship operated by the company;
- Other ship-related activities that are a necessary and integral part of the business of operating the company's qualifying ships;
- The letting on charter of a qualifying ship for use for the carriage by sea of passengers and cargo where the operation of the ship and the crew of the ship remain under the direction and control of the company;
- The provision of ship management services for qualifying ships operated by the company;
- Certain dividends from overseas qualifying companies;
- Foreign currency gains related to the tonnage tax trade.

## Qualifying Ship

A Qualifying Ship is a self-propelled, sea-going vessel of 100 tons or more gross tonnage, which is certificated for navigation at sea by the competent authority of any country or territory.

Certain vessels such as fishing vessels, harbour ferries, offshore installations, dredgers and sport/recreational vessels are excluded from being a qualifying ship.

## How can Ernst & Young Dublin help?

As a member of Ernst & Young's International Shipping Group (ISG), we not only have significant expertise in advising shipping companies on domestic tax, accounting and regulatory issues but we also have access to a network of international shipping industry experts in our offices worldwide. In addition, we have an in-house US tax specialist. We also have a close working relationship with the IMDO. Access to this network allows us to keep up to date with developments in the shipping industry worldwide and enables us to deliver co-ordinated advice in an efficient and timely manner. Our expertise in this area allows us to provide a wide range of services including:

- Advising on the structures best suited to the group's overall requirements;
- Advising on conditions to be met to avail of the tonnage tax regime;
- Advising on whether the tonnage tax regime or normal corporation tax regime is best suited to a particular company's specific circumstances;
- Advising on tax planning generally taking into account the tax status of the worldwide group;
- Advising on tax efficient financing structures to acquire vessels;
- Arranging introductions and liaising with legal advisors and other service providers;
- Recruitment of key personnel;
- Personal financial planning for individuals taking up positions in Ireland;
- VAT planning in relation to set up and ongoing transactions;
- Company formation and secretarial services;
- Provision of quality audit services;
- Ongoing advice on taxation, accounting and regulatory matters and on developments generally.

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