



TAX OF SHIPPING ACTIVITIES

Tonnage Tax System

FLAG

Largest registry in Europe,
6th in the world

REGISTRY GROSS TONNAGE:

Over 57 million

NO. OF VESSELS REGISTERED:

Over 11,000

TONNAGE TAX SYSTEM:

EU approved

TAX ON SHIPPING ACTIVITIES:

Exempt

TAX ON OTHER TRADING ACTIVITIES:

5% effective tax rate





MALTA

The revamped Malta tonnage tax system, fully endorsed by the European Commission and aligned with EU State Aid Rules, entered into force on the 1st of May 2018. The system restates that vessels involved in the international carriage of goods or passengers by sea, including commercial yachts, qualify as tonnage tax ships and, therefore, are entitled to avail themselves of the benefit of not paying tax under the provisions of the Income Tax Act, but, instead, paying an annual fixed tax — tonnage tax — calculated on the basis of the net tonnage of the vessel.

The regulations set out qualifying criteria and provisions for a shipping organisation to qualify for the tonnage tax benefits, including provisions on shipping management activities, vessels under charter out agreements, ancillary activities that may be regarded as shipping activities, as well as the conditions for towage and dredging activities to benefit from the tax exemption. In addition to the tonnage tax system, Malta offers cost-effective social security contribution rates.

The revived Malta tonnage tax system ensures legal certainty to the shipping industry and strengthens Malta's position as a leading flag state, not only committed to the loftiest international standards but also to provide a highly effective business environment to the industry.

LEGAL BASIS

The Malta Tonnage Tax regime is governed by the Merchant Shipping Act (Chapter 234 of the Laws of Malta) as amended by legal notices 127 and 128 of 2018 and Merchant Shipping notice 143 of 2018 specifically issued to re-instate and implement the amended and EU approved tonnage tax system.

Shipping organisations are also subject to the Merchant Shipping Regulations under the Licensing of Shipping Organisations (S.L. 234.41) and to the Shipping Organisations - Private Companies (S.L. 234.42) Regulations.

The main fiscal advantages of the tonnage tax system for a shipping organisation covering shipping activities include:

- exemption from corporate tax under the Income Tax Act on shipping activities;
- exemption from tax under the Income Tax Act on any income, profits or gains derived from the sale or other transfer of ship tonnage tax ship which had been acquired or sold whilst under the regime or from the disposal of any rights to acquire a ship which when delivered would qualify as a tonnage tax ship; and
- exemption from tax on the distribution of profits derived from shipping activities to the shareholders.



Exemption from
Income Tax



EU Approved



Easy Same Day
Incorporation



Relatively Low
Establishment and
Operating Fees



No Notary/court
Process Required



KEY REQUIREMENTS

For the Malta tonnage tax regime to apply the following general conditions must be met:

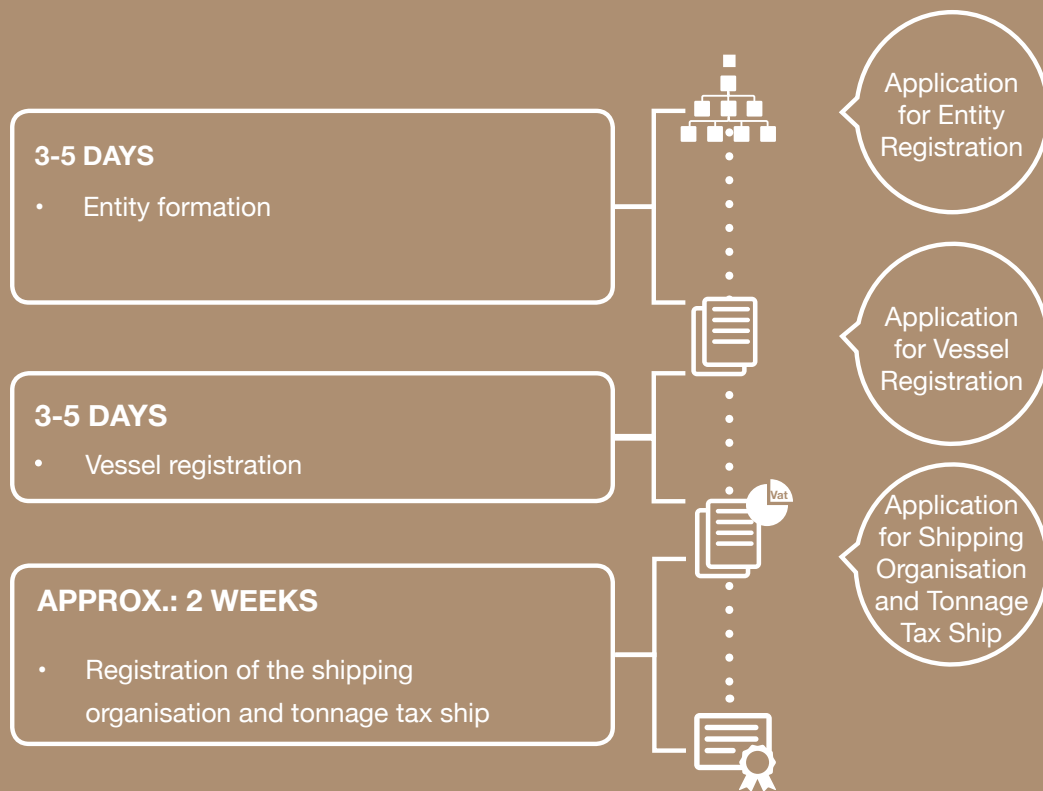
- the ship is operated through a genuine shipping organisation - that is one which has assumed risks and responsibilities related to the operation of a tonnage tax ship or to carrying out of shipping activities;
- the ship is declared as tonnage tax ship in accordance to the Maltese regulations - a tonnage tax ship is a vessel of any net tonnage involved in the international carriage of goods or passengers by the sea, including cable and pipe laying ships, crane vessels, research vessels and multi-purpose, break-bulk and other types of support vessels, as well as cruise ships and commercial yachts. Certain types of vessels are excluded from the regime, such as fishing vessels, pleasure yachts, stationary ships employed as hotels, among others;
- the activities undertaken by the shipping organisation are shipping activities - this mainly refers to the international carriage of goods or passengers by sea in accordance with the EU Maritime State Aid Guidelines, as well as connected activities and ancillary activities, provided that they are integral and directly linked to the business of operating a tax tonnage tax ship. The latter subject to minimum thresholds. The connected and ancillary activities include:
 - shipping management activities,
 - bareboat out specifically to a shipping organisation forming part of the same group or in case of short-term over-capacity when the term of the charter does not exceed 3 years,
 - ocean towage services in cases the tug bears EU/EEA flag and more than 50% of the towage activity effectively carried out by the tug constitutes maritime transport, but excluding services carried out in ports and the assistance of a self-propelled vessel to reach port. Any waiting time must be proportionally assimilated to that part of total activity effectively carried out by a tug which constitutes maritime transport,
 - dredging services as the ship is self-propelled, bears a EU/EEA flag, and spends at least 50% of its yearly operational time in maritime transport, including travelling time to the dredging site located at sea and for the carriage of the dredged goods to the place of discharge, and
 - all activities related to a tonnage tax ship, other than commercial activities which form part of operation of a port, that have substantial connection with the shipping organisation activities, or where the licensed shipping organisation is a member of a group, the shipping activities of another qualifying licensed shipping organisation in that group;
- the flag link requirement is fulfilled - as a general rule, a shipping organisation must own, operate, administrate or manage at least 60% of its total tonnage under the flag of an EU/EEA state. A ship registered in any EU/EEA state other than Malta only qualifies for the regime if an amount equivalent to the Malta tonnage tax is paid to the Malta ship registry;
- separate accounts are kept clearly distinguishing receipts and payments relating to shipping activities from those relating to any other business, if any;
- tax returns and documentation are submitted clearly showing the split between eligible and non-eligible income; and
- the relative ship registration fees and tonnage tax are paid.

PROCEDURE

The Maltese tonnage tax solution overall involves:

- the setting up of a entity in Malta;
- the registration of the vessels in Malta or other EU/EEA country; and
- the application and approval for the entity to be approved as a shipping organisation and the ship to be declared as tonnage tax ship with the Registry of Ships, including a list of any additional ships owned;/operated/managed/chartered by the organisation.

TIMELINE OF PROFILE FOR MALTA TONNAGE TAX REGIME



WHY WORK WITH US?



Dr Charlene Mifsud
Partner, Corporate & Commercial Law
cm@ccmalta.com
ccmalta.com