Tax breaks for shipping

SA's empty registry of locally flagged cargo and passenger ships has prompted treasury to propose a tax break to revive the country's maritime industry and attract vessel owners.

Over R160bn is paid annually to foreign owners and operators for shipping services. SA ports handled more than 260Mt of cargo last year and 98% of the goods that the country imports and exports is moved on water, says the SA Maritime Safety Authority (Samsa).

The SA Agulhas, a training vessel, is the only locally flagged passenger ship after Safmarine's fleet was purchased by the Danish AP Moller-Maersk group.

"Taxation is one of the costs ship owners take into account when deciding where to register a ship, and patriotism has no place," says Samuel Nkosi, executive head of Samsa's centre for policy, regulatory affairs and ship registrar.

Currently, companies would pay 28% on income generated from their shipping activities of a locally flagged vessel.

Under the new proposals, income derived from SA-flagged ships of an international shipping company are exempt from tax if that vessel is engaged in international traffic of passengers or cargo by sea for reward.

An international shipping company is one that is incorporated or effectively managed in SA, and holds a share or shares in one or more ships registered locally that are engaged in international traffic.

Tax breaks for operators

Dividends paid by an international shipping company will not be subject to dividends tax if the dividend is derived from an SA flagged international ship. Revenue or capital gains arising from the disposal of these vessels are also exempt.

"This will certainly enable them to compete on the same level from a tax perspective, thus clearly making it an attractive option," says Deborah Tickle, KPMG international and corporate tax director.

In the UK, shipping companies pay tax on the tonnage of a ship at a yearly rate - in effect a licence fee - and companies in Singapore enjoy zero tax on income from shipping activities.

SA's Brics counterparts have bigger cargo fleets: Brazil has 172 merchant ships, India 534, Russia 1,891 and China 2,044.

Ports regulator manager Chris Lötter says the proposals are a step in the right direction.

"One of the difficulties for the industry is high taxes," he says. "But whether or not it will result in significant SA flagging remains to be seen."

Cargo-carrying vessels plying the SA route employ about 240,000 foreign seafarers. Skills development is needed to meet the industry's demands, as vessel owners consider issues such as places to repair, refuel, store and insure vessels when deciding where to flag.

"There needs to be proper support for the ships on the register, particularly from a technical support point of view," says Samsa chief operating officer Sobantu Tilayi.

Treasury's proposals extend to officers and crew of SA-flagged ships engaged in international transport, who would be wholly exempt from income tax.

"However, some believe the legislation should be extended to non-SA resident companies as well," says Tickle. "We understand that some companies in the industry feel that the proposed tax change has not gone far enough to attract shipping companies to move their ships to SA," she says.

Source: Financial Mail via I-Net Bridge