

Marine Taxation Review

Submitted to

**Marine Review Steering Group
including the Department of Finance,
the Department of Agriculture, Food
and the Marine, the Department of
Transport, Tourism and Sport and the
Department of Jobs, Enterprise and
Innovation**

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Executive Summary

Introduction and Background

This independent report is prepared by Indecon International Economic Consultants and is submitted to the Department of Finance and to the steering group including the Department of Agriculture, Food and the Marine and the Department of Transport, Tourism and Sport. The report concerns an examination of the tax incentives available to the marine/maritime¹ sector. Our analysis includes a rigorous evaluation of the costs and benefits of existing measures, as well as a review of international experience.

There are a number of existing taxation measures in Ireland which are targeted at the fishing, ports and shipping sectors. The overall objective of this review is to ensure that there is a supportive financial environment underpinning the marine sector. The scope of the review included:

- ❑ A consultation process with the Marine Co-ordination Group and with key stakeholders;
- ❑ A review of the tax supports available to the marine sector in Ireland, in order to structure the tax system in a way that supports the development of the sector;
- ❑ A review of maritime tax-related policy measures in a number of other countries;
- ❑ An analysis of the benefits available to the sector and the wider economy versus the Exchequer costs of existing measures;
- ❑ The development of suggestions for any improvements that can be made to better achieve existing stated Government policy goals; and,
- ❑ The formulation of recommendations, if appropriate, for changes that could be made to enhance or maximise the value for money to the taxpayer, taking EU state aid considerations into account.

Context for Review and State Aids

This Marine Taxation Review is part of a wider suite of initiatives and research which is being undertaken to develop the sector.

The remit of this review is confined to look only at taxation measures for certain sub sectors of marine, namely fishing, ports and shipping. It is important to note that extensive government supports for the marine sector particularly for the fishing and seafood processing, are via expenditure measures, which are outside the scope of this assignment.

In examining taxation measures it is also necessary to highlight that the European State Aid issues are very significant. While State Aid rules provide a constraint on new incentives for all sectors, these are particularly noteworthy in the marine sector as more restrictive State Aid provisions apply. Similar to the agriculture sector separate State Aid guidelines are applicable for the marine sector as specified under the 'Guidelines for the examination of State Aid to the Fishery and Aquaculture Sector'.

¹ The terms "marine" and "maritime" are used interchangeably throughout this report and no technical distinction between the marine maritime sectors is used herein.

Economic Significance and Potential of Marine Sector in Ireland

The Socio-Economic Marine Research Unit (SEMRU)² at the National University of Ireland, Galway (NUIG), provides data on the marine sector, encompassing established and emerging marine-related markets. These include shipping and maritime transport, marine tourism and leisure, marine retail services, sea fisheries and aquaculture. Turnover in the marine sector as widely defined has increased each year since 2010 and it is estimated that this wider marine sector contributed almost €1.4 billion in Gross Value Added (GVA) to the Irish economy. Shipping and maritime transport, followed by maritime tourism and leisure, are the subsectors which demonstrate the highest turnover and GVA.

Trend in Turnover and Gross Value Added of the Irish Marine Sector 2010-2014				
	2010	2012	2014*	2010-2014 % change
Turnover - €billion	3.1	4.2	4.5	43%
GVA - €billion	1.2	1.3	1.4	18%

Source: SEMRU Data from "Ireland's Ocean Economy". Ref Year 2012.
 Note: *Figures for 2014 are estimated by the SEMRU. These estimates are the result of a forecasting exercise of the future turnover, GVA and employment in Ireland's Ocean Economy on a sector-by-sector basis. This methodology is based on published socio-economic data from the CSO, government economic forecasts and information obtained from interviews with marine-related enterprises and relevant government departments and agencies.

In 2014, the marine sector was estimated to account for 0.8% of total Gross Domestic Product (GDP) in the Irish economy. Previous estimates of the gross value for 2007 suggested that if a wide definition is applied, the marine sector directly accounted for approximately 1.0% of GDP, or 1.2% if direct and indirect impacts are included. It should be noted that every sector has indirect impacts on other parts of the economy. In considering the impacts as a percentage of GDP, it may be more appropriate to focus on direct impacts. The decline in the estimated percentage of GDP from 2007 to 2010 is likely to be influenced by the rapid growth in other parts of the economy over that period.

Economic Value of Irish Marine Sector as % of GDP				
	2007	2010	2012	2014
Direct Economic Value (GVA) of Marine Sector as % of Irish GDP	1.0%	0.7%	0.7%	0.8%

Source: SEMRU Data

Other estimates of the significance of sub-sectors within the marine sector indicated the following:

- ❑ The value of output of fishing and aquaculture amounted to €393 million in 2011;
- ❑ Turnover in the fish processing sector grew by almost 38% to €514.5 million in 2012 and €236.5 million of this was attributable to exports; and,
- ❑ Overall seafood sales grew by 15% between 2009 and 2013. Exports of seafood are of critical importance and Ireland exported seafood to 80 different markets worldwide. The value of exports rose by 71% from 2009 to reach €540 million in 2014.

A summary of the significance of the port sector can be seen from examining how much Irish ports facilitate exports from Ireland. SEMRU estimates in "Ireland's Ocean Economy" that sea-based transport accounted for 92% of total volume and 67% of the total value of goods traded in Ireland in 2012. These estimates are higher than those indicated by CSO External Trade statistics, which suggest that sea-based trade accounts for 74% of total trade in volume terms and 41% in value terms. This difference is likely to relate to traffic using Northern Ireland ports which are excluded from the CSO estimates.

² SEMRU is based in the College of Business, Public Policy and Law at NUI, Galway, with a main research focus on the economic importance of coastal and off-shore marine environments.

Employment in the Marine Sector

Employment in the overall marine sector in 2014 was estimated by SEMRU to amount to 18,480 full-time equivalent persons (FTEs). Employment in the sector grew by almost 5% from 2010 to 2012 and by a further 6% from 2012 to 2014. The largest numbers employed are in marine tourism and leisure, shipping and maritime transport, sea fisheries and seafood processing. Employment in this labour-intensive sector is spread regionally and provides an important source of jobs to local communities.

Employment in the Irish Marine Sector			
	2010	2012	2014 ^e
Persons Employed – Full Time Equivalents	16,614	17,425	18,480
Source: SEMRU Data e=estimate.			

Growth Targets for the Marine Sector

The two over-arching targets for the Irish marine sector as set out in the Government's 'Harnessing Our Ocean Wealth' strategy document are to:

- Double the value of Ireland's ocean wealth to 2.4% of GDP by 2030; and,
- Increase the turnover from our ocean economy to exceed €6.4 billion by 2020.

Analysis of the turnover targets for each industry (see table below) indicates a target of €1 billion turnover for seafood, to be comprised of €350 million in domestic sales and €650 million in export sales, by 2017.

Breakdown of Government's Turnover Target for Ireland's Ocean Economy by Individual Industry in the Wider Marine/Martime Sector	
	Turnover Target 2020
Seafood (Fisheries, Aquaculture, Seafood Processing)	€1 billion
Marine Commerce and Ship Leasing	€2.6 billion
Marine and Coastal Tourism and Leisure	€1.5 billion
Marine ICT and Biotechnology	€61 million
Ports and Maritime Transport Services Maritime Manufacturing, Engineering, Offshore Oil and Gas and Other Marine Industries	€1.2 billion
Source: <i>Harnessing Our Ocean Wealth – An integrated marine plan for Ireland.</i>	

Indecon's assessment of the targets set is that they are ambitious and will require supportive taxation and other measures if they are to be achieved.

Review of Marine Tax Measures in Other Countries

As part of our review, we examined marine taxation measures in a number of other countries, in particular in the UK, Netherlands, Denmark, Greece, France, Norway, Malta, Italy, Cyprus, Germany and Singapore. One of the noteworthy features of the international review was the presence of a tonnage tax and also seafarer tax deductions as well as capital allowances in all of these countries. While there are similarities in the taxation treatment of the marine sector to that in Ireland, in some countries features of their tax systems are more supportive of the development of aspects of the wider sector.

Tonnage Tax

A tonnage tax is in place in many other countries including the UK, Netherlands, Denmark, France, Norway, Germany and Singapore. Many of these schemes are similar to the Irish tonnage tax and have also replicated features of the scheme introduced in the Netherlands. In a number of cases certain aspects of these schemes may be more attractive than the Irish scheme in terms of the range of activities covered, although the key features of the Irish tonnage tax scheme remain competitive. A number of other countries also have a different form of tonnage tax and noteworthy among these are the schemes in Greece, Malta and Cyprus. For certain forms of shipping activities, the schemes in these latter countries are attractive, in that shipping companies are not liable to pay corporate tax on income and only have to pay the tonnage tax.

Seafarers' Tax Allowances

A seafarer tax allowance is in place in the UK, Netherlands, Denmark, Greece, France, Norway, Italy, Cyprus, Germany, Malta and Singapore. In many of these countries, a differential tax rate applies to eligible employees under certain conditions, rather than the more limited Irish tax allowance. Interestingly in two of the countries reviewed, qualifying seafarers appear to be exempt from tax, namely in Cyprus and in Singapore, the latter where employment takes place substantially outside the jurisdictions. Another interesting variation is evident in the UK, where it would appear that eligible fishermen who meet the criteria and who are working on fishing vessels can qualify. This differs from the position in Ireland, where fishing vessels are explicitly excluded from this relief. We understand that many share fishermen in the UK might not meet the criteria for qualification, but there is no exclusion of fishing vessels, as applies in the Irish legislation. We also understand that the UK seafarers' earnings deduction was not submitted for EU state aid approval as it was not considered a state aid.

Other Marine Related Tax Measures

Our international review has also documented specific tax incentives, which are either targeted on the marine sector or which are available to this sector.

These include:

- Fuel Tax Exemption;
- Accelerated Depreciation/Capital Allowances;
- Incentives for Ship Leasing;
- Voluntary Tax Budgeting Scheme for Share Fishermen;
- VAT Zero-Rating for Ships.

Review of Existing Tax Measures in Ireland

There are a number of specific tax measures implemented in Ireland to encourage the marine sector. These include Tonnage Tax, Dock Undertakings Building Allowances, Seafarers' Tax Allowances/PRSI Refund, and VAT/Excise Rebates.

Tonnage Tax

The Irish tonnage tax regime provides an alternative way for qualifying shipping companies to calculate their shipping profits for tax purposes, based on the tonnage of the ships operated by the company. Corporation tax of 12.5% is then applied to this profit. The scheme is elective and companies must agree to remain in the scheme for a minimum of 10 years. Ships must have a gross tonnage of 100 tonnes or more to qualify for the scheme. A number of vessels are specifically excluded, including fishing and fish factory vessels, and harbour, estuary and river ferries, oil tankers and dredgers. Any income which does not qualify as "relevant shipping income" is subject to corporation tax in the standard way.

Dock Undertakings Buildings Allowances

The application of the industrial building allowances to dock undertakings comprises capital allowances for capital expenditure incurred on the construction or refurbishment of buildings and structures classified as an industrial building/structure for dock undertakings. The definition of a 'dock undertaking' includes "any harbour, wharf, pier, jetty or other works in or at which vessels can ship or unship merchandise or passengers, but does not include a pier or jetty used primarily for recreation".³ The tax life/holding period in the case of a dock undertaking is 25 years.

Seafarers' Tax Allowances/PRSI Refund

The seafarers' allowance is a tax allowance of €6,350 which applies to seafarers who are "(...) at sea or on a voyage to or from a foreign port for at least 161 days in the tax year"⁴, as well as seafarers on vessels which service drilling rigs. The seafarer must be employed on a seagoing ship, i.e. "(...) a ship **other than a fishing vessel** that is registered in the shipping register of a European Member State and is used solely for the purpose of carrying passengers or cargo for reward".⁵ (Emphasis added.)

The refund of employers' Pay Related Social Insurance (PRSI) social security contributions to employees is applicable in respect of the employment of seafarers on certain ships.

VAT/Excise Rebates

Repayment of VAT can be claimed by VAT-unregistered fishermen on the purchase, intra-Community acquisition, importation, hire, maintenance and repair of sea-fishing vessels and specified fishing equipment, provided that the vessel/vessel for which the equipment is intended has a gross tonnage of more than 15 tonnes.

VAT can also be reclaimed on the purchase, intra-Community acquisition or importation of marine diesel, as can mineral oil tax paid on such diesel. VAT can also be reclaimed on expenditure on small sea/inland waterway rescue craft (up to 15 tonnes gross tonnage) and expenditure on ancillary equipment and special boat buildings used exclusively for rescue and assistance or for rescue and assistance training.

Tax Contribution of Marine Sector in Ireland

New evidence produced for this study by the Revenue Commissioners and provided to Indecon suggests that those subsectors of the marine industry which are the focus of this assignment contributed a total of €48.1 million in tax to the Irish Exchequer during 2013. This excludes tax revenues from the important marine tourism sector, which is outside the scope of this study. The tax contribution of ports amounted to €21.6 million in 2013, while the total tax paid by the shipping industry was €9.6 million in 2013. The seafood/aquaculture/fishing sector paid €16.9 million in tax in 2013 (see next table).

Annual Tax Revenue from Tonnage Tax, VAT, Corporate Tax, Income Tax and Capital Gains Tax by Industry 2011-2013				
	Ports - € million	Shipping Companies - € million	Seafood/ Aquaculture/ Fishermen - € million	Total - € million
2011	24.2*	8.8	16.5*	49.5
2012	22	9.5	16.7	48.2
2013	21.6	9.6	16.9	48.1

Source: Indecon analysis of data from Revenue Commissioners
 Note: *doesn't include negligible (less than €100,000) capital gains tax

³ Notes for Guidance – Taxes Consolidation Act 1997 – Finance Act 2014 Edition - Part 9.

⁴ Revenue Commissioners, Seafarers Allowance, <http://www.revenue.ie/en/tax/it/crdits/seafarers-allowance.html>

⁵ Ibid.

Costs and Benefits of Existing Marine Tax Measures

The overall assessment also included a cost-benefit analysis of existing marine taxation measures which examined the overall costs and benefits of these measures to the Irish economy as a whole. In the assumptions underlying our cost-benefit analysis, we have in most cases used very conservative estimates of benefits, unless there are particular reasons for the use of alternative estimates. We also assume costs and benefits are evaluated on a single year basis. This is likely to lower the net benefits and Indecon accepts that for some of the measures, notably for capital allowances. A strong case could be made for adjusting these figures upwards by extending the time period for approval. The key assumptions used in our cost-benefit analysis are presented below.

Key Assumptions Used in Cost-benefit analysis	
Shadow Price of Public Funds (SPPF)*	130%
Administration Costs	1%
Discount rate	5%
Deadweight	10%-35%
Opportunity Cost of Labour	80%
Tax Rate - Wages	35%
VAT Rate	23%
Construction phase - direct labour % of overall construction spend	50%
Multiplier - Indirect Wages (Construction Sector, Type I)	1.59
Source: Indecon	
*Department of Public Expenditure and Reform	

The total estimated annual cost across all marine tax measures is estimated to be €2.12 million, or €2.78 million when taking account of the shadow price of public funds and administration costs. While a number of assumptions are inherent in the estimates, it is very evident that the specific taxation incentives used to date to support the marine sector are very limited. The costs of these are very low, both compared to the tax revenues from the sector and compared to the level of tax incentive supports provided to other sectors.

Estimate of Total Costs Across all Measures	
	€ million
Tax Foregone (€m)	2.12
Shadow Price of Public Funds Adj (€m)	0.64
Administration costs (€m)	0.021
Total Economic Costs (€m)	2.78
Source: Indecon analysis of Revenue Commissioners data	

Costs and Benefits of Tonnage Tax

Indecon has utilised an estimated tax cost of €0.2m associated with the tonnage tax regime for the purposes of a CBA calculation. Taking account of the shadow price of public funds (at 130%) and administration costs (at 1%), we estimate an overall cost of the tonnage tax regime of €0.26 million. There is a possibility that the tonnage tax regime may have increased Exchequer tax revenue rather than representing a cost, as most if not all of the shipping companies would have located for tax reasons in other countries.

Indecon's assessment is that it is likely that fewer companies would choose to locate in Ireland in the absence of the tonnage tax regime, which would have a consequent impact on employment. The benefits of the tonnage tax regime are therefore the increased income tax and corporate tax obtained from shipping companies and increased income tax paid by seafarers. The benefits of the tonnage tax regime are estimated to be €1.13 million per annum, assuming an 80% opportunity cost of labour and 35% deadweight.

Accounting for the shadow price of public funds, the opportunity cost of labour and deadweight, we estimate the net benefit of the tonnage tax regime to be €0.87 million per annum (see table below).

Costs and Benefits - Tonnage Tax	
Annual Costs of Measure (€m)	0.20
<i>Estimated additional tonnage tax revenue (€m)</i>	<i>0.29</i>
<i>Estimated additional corporate tax revenue (€m)</i>	<i>0.24</i>
<i>Estimated additional income tax revenue from increased employment (€m)</i>	<i>4.07</i>
Quantified Benefits of Measure (€m) (income tax benefit arising from the scheme)	4.59
Net Benefit (€m)	4.39
Net Benefit after adjustment for 130% shadow price of public funds (€m)	5.71
Net Benefit assuming only 20% of income tax received (to take account of 80% opportunity cost of labour) (€m)	1.14
Net Benefit with adjustments for shadow price of public funds and opportunity cost of labour (€m)	1.48
Net Benefit with adjustments for shadow price of public funds, opportunity cost of labour and 35% deadweight (€m)	0.87
Source: Indecon analysis	

Costs and Benefits of Seafarer Tax Allowance/PRSI Refund Scheme

The Revenue Commissioners estimates the annual tax foregone on the seafarer tax allowance and PRSI refund scheme to be €0.4 million and €0.42 million, respectively, in 2013. The combined costs of the seafarer tax allowance and PRSI refund scheme are estimated to be €1.08 million, taking account of the shadow price of public funds and administration costs.

Estimate of Total Costs - Seafarer Tax Allowance and PRSI Refund - 2013	
	€ million
Tax Foregone	0.82
Shadow Price of Public Funds Adj	0.25
Administration costs	0.008
Total Economic Costs	1.08
Source: Indecon analysis of Revenue Commissioner data	

The main benefits of the seafarers' schemes identified through new primary research undertaken by Indecon for this study include increased employment and assistance to the competitiveness of the sector. We assume that 10% of seafarers would pay tax in Ireland in the absence of the schemes. The benefits of the scheme are thus the additional income tax paid by seafarers who would not be locating in Ireland in the absence of the scheme. Indecon estimates the additional income tax associated with the seafarer tax allowance and the PRSI refund scheme to be €1.44 million and €0.83 million, respectively. We combine the benefits from the seafarer tax allowance and the PRSI refund scheme to estimate total benefits of €2.27 million per annum arising from the two schemes (see table overleaf).

Summary of Economic Benefits of Seafarer Tax Allowance and PRSI Refund Scheme	
Number of seafarers availing of scheme	315
Average income tax paid per seafarer (€m)	0.00615
Total income tax paid by all seafarers availing of scheme (€m)	1.94
Number of seafarers who would pay tax in Ireland in absence of scheme	32
Income tax benefit arising from scheme (€m)	1.74
Total Benefits adjusted for shadow price of public funds (€m)	2.27
Source: Indecon analysis	

The above estimates assume there are two different groups of individuals and this may not be correct. Therefore in our CBA we only include income tax benefits for the seafarer tax allowance group, but include the cost of both groups. The net benefit of the schemes, when accounting for the shadow price of public funds, is estimated to be €0.36 million (see table below). If alternative assumptions were made, the schemes would have a small net cost.

Costs and Benefits - Seafarer Tax Allowance and PRSI Refund Scheme	
Annual Costs of Measure (€m)	0.82
Quantified Benefits of Measure (€m) (income tax benefit arising from the scheme)	1.44
Non-Quantified Benefits	Assists competitiveness of shipping sector
Net Benefit (€m)	0.36
Source: Indecon analysis	

Costs and Benefits of VAT/Excise Rebate Schemes

The Revenue Commissioners have indicated that neither the tax cost nor the administration costs associated with the VAT/excise-rebate schemes are considered to be material, due to the small average size of claims. For the purposes of our analysis, Indecon assumes that the cost to the Exchequer of the VAT rebate scheme is negligible.

Over half of respondents to the Indecon survey indicated the view that the VAT rebate scheme on fishing vessels and equipment attracts some fishing vessel owners to locate in Ireland, while approximately 80% of respondents to the Indecon survey judged that the VAT rebate scheme results in increased employment and assists competitiveness (see next table).

Views of Fishermen and Sea Food Firms on Impact of VAT Rebate Scheme - % of Respondents						
	Strongly Agree	Agree	Disagree	Strongly disagree	Don't Know / Neither Agree nor Disagree	Total
Attracts fishing vessel owners to locate in Ireland who would not located in Ireland in the absence of the VAT rebate scheme	32%	26%	12%	6%	24%	100%
Results in increased employment in Ireland in fishing sector and in fish processing	45%	33%	10%	2%	10%	100%
Assists competitiveness of Irish fishing and seafood sector	46%	35%	5%	3%	11%	100%
Source: Indecon Confidential Information Request to Fishermen and Sea Food Firms on Aspects of Marine Taxation						

Over 80% of respondents indicated that the VAT rebate on marine diesel encourages the purchase of marine diesel in Ireland and results in increased employment and assists competitiveness.

Views of Fishermen and Sea Food Firms on Impact of Marine Diesel VAT Rebate- % of Respondents						
	Strongly Agree	Agree	Disagree	Strongly disagree	Don't Know / Neither Agree nor Disagree	Total
Encourages purchase of marine diesel in Ireland	58%	29%	3%	1%	9%	100%
Results in increased employment in Ireland in fishing sector and in fish processing	54%	29%	8%	2%	8%	100%
Assists competitiveness of Irish fishing and seafood sector	56%	29%	6%	0%	9%	100%

Source: Indecon Confidential Information Request to Fishermen and Sea Food Firms on Aspects of Marine Taxation

Because of the negligible costs, it is not appropriate to attempt an estimate of costs and benefits but our analysis suggests the measure has net benefits.

Costs and Benefits of Application of Industrial Buildings Allowance to Dock Undertakings

Indecon estimates that the average annual tax cost of the Industrial Buildings Allowance to Dock Undertakings measure during 2012 and 2013 was €1.1 million. Including an adjustment for the shadow price of public funds and administration costs, we estimate that the total economic costs of the measure at €1.44 million.

Primary research reveals that the percentage annual increase in investment in port infrastructure due to the Industrial Buildings Allowance is estimated to be around 19%. We apply this percentage increase to an estimate of the annual capital expenditure in larger Irish ports. Our analysis suggests that additional annual investment of €4.94 million in ports results from the Industrial Buildings Allowance, even though not all capital expenditure benefits from the dock undertaking allowances. Indecon believes that the estimated benefits represent a very conservative assumption and forms the basis for the increase in investment assumed under Scenario A (see table overleaf). The reason is that the one-year timescale for benefits of capital investment is too conservative and benefits are likely to arise over a 5 to 30-year period. Economic benefits of the scheme are estimated to be €1.67 million, with additional multiplier impacts of €0.26 million. The net benefit of the measure (even using this assumption and including adjustments for the shadow price of public funds, the opportunity cost of labour and 10% deadweight), is estimated to be €0.23 million. An alternative assumption on the increased investment arising from the measure comprises Scenario B. The net benefit associated with the application of the Industrial Buildings Allowance to dock undertakings is estimated to be €1.90 million per annum under Scenario B and our judgement is that even this scenario underestimates the benefits.

Costs and Benefits - Application of Industrial Buildings Allowance to Dock Undertakings 2012-2013		
	Scenario A: Conservative Assumption on Benefits	Scenario B: Higher Benefits
Average Cost of Application of Industrial Buildings Allowance to Dock Undertakings 2012-2013 (€m)	1.10	1.10
VAT benefit from increased investment (€m)	1.14	2.27
Quantified Benefits of Measure before taking account of opportunity cost of labour (€m)	3.78	7.56
Non-Quantified Benefits	Improves Competitiveness of Irish Ports	
	Enhances Productivity	
Net Benefit, with adjustments for shadow price of public funds, opportunity cost of labour and 10% deadweight (€m)	0.23	1.90

Source: Indecon analysis

Industry Views on New Potential Marine Tax Measures

As part of this study, Indecon invited leading shipping, port, fishing and seafood firms and their representative organisations to submit views on new potential marine tax measures. We also sought views on the key strategic areas meriting support. Areas seen as requiring investment or support by the port/shipping sector include port capital expenditure, and green marine equipment, in addition to provision of enhanced incentives to develop Ireland as an international shipping centre, and measures to encourage the repair of vessels.

The views of the fishing and seafood sectors identified key strategic challenges as including investment in fishing vessels, incentives to encourage repair/purchase of and decommissioning of vessels, incentives for investment in seafood processing, and measures to reduce the personal tax of fishermen and to encourage new entrants.

Proposals from Stakeholder Consultation

A very wide range of proposals arose from the stakeholder consultations. In the case of the ports sector these included proposals for:

- ❑ Investment Supports for Ports
 - Expand definition of ‘dock undertaking’ for the purposes of Industrial Building Allowance
 - Expand other existing capital allowance measures for port/marine-specific equipment
 - Utilisation of Employment and Investment Incentive
 - Expansion of the R&D tax credit
- ❑ Capital Gains Tax Exemptions or Relief for Port Assets
- ❑ Measures to Support Businesses Locating in Port Areas
 - Corporate tax measures
 - Exemption from local authority rates to port facilities and businesses
 - Tax relief for companies carrying out new trading activities
 - Payroll tax write off for new employment
 - Capital grants

Some of the key proposals arising from consultations with the Shipping Sector include:

- ❑ Proposed Modifications to the Existing Tonnage Tax Regime
 - Widen definition of shipping income and shipping profits
 - Allow bareboat charter activities to qualify for tonnage tax regime
- ❑ Extend Ireland’s Double Taxation Agreement (DTA) network
- ❑ Personal Taxation Measures for Seafarers
 - Expand definition of international voyage for seafarers’ tax allowance
 - Retain ISEAS training grant and consider tax measures for seafarers’ training at NCMI
- ❑ Measures to enhance ship leasing and Ireland as an international shipping centre
 - Specific ship leasing tax incentives
 - Rebate for PAYE paid by companies on the Irish shipping register

A number of proposals arose from our consultation with the fishing sector, including:

- ❑ Taxation of Fishermen
 - Withholding (voluntary tax deduction) regime for share fishermen (as in the UK)
 - Extend employee tax credits and seafarer allowance for fishermen who meet necessary requirements
- ❑ Remove 15-tonne gross tonnage requirement for VAT-zero rating
- ❑ Consider application of incentives from agriculture sector such as:
 - Tax relief for organic aquaculture production
 - Income averaging for new entrants
 - Young Aquaculture Farmers Scheme
 - Aquaculture Relief (based on Agriculture Relief)
 - Stamp Duty exemption on inheritance in aquaculture
 - Stock Relief for aquaculture
- ❑ Measures to assist decommissioning of fishing vessels
- ❑ In relation to seafood processing proposals included:
 - Increase R&D tax credit for the marine sector
 - Shorten write-down period for plant and machinery in marine sector

While Indecon understands the rationale behind many of the proposals, we believe a number are unlikely to be justified taking account of the costs and benefits involved and the constraints on public finances. It is also important to take account of EU and National Fiscal context. We have, however, outlined a number of significant recommendations for enhanced marine taxation measures.

Recommendations for Enhanced Marine Taxation Measures

As part of this assignment, Indecon's assessment was that enhanced targeted measures are needed if Ireland is to achieve its growth targets for the marine sector. Based on our assessment of the key strategic challenges facing the sector and our international review, we have developed a number of recommendations which we believe are justified. This takes account of our assessment of the costs and benefits of the existing measures and our consultations with the sector.

These recommendations are designed to meet the strategic challenges for the sector and will be supportive of Government policy including the Foodwise 25 and BIM strategies. The main rationale for these recommendations is to create additional employment and retain existing jobs and to develop value added activity in the Irish economy.

A summary of Indecon's recommendations for taxation in the marine sector are set out in the table below. The recommendations are not presented in any order of priority but are grouped by the main sectors covered.

Summary of Recommendations

Ports

1. Extension of dock undertaking capital allowance for ports to cover wider range of activities
2. Widening of definition of port related plant and machinery operations eligible for tax allowances

Shipping

3. Introduction of enhanced trust certificates to promote Ireland as an international ship leasing centre
4. Consideration to some amendments to the tonnage tax regime including the widening the definition of shipping income subject to EU State Aids approval
5. Consideration of the extension of VAT rebate scheme to commercial ships registered in EU

Fishing, Aquaculture, Sea Food Processing

6. Application and promotion of EII and SURE Scheme to aquaculture, seafood processing and sea fishing enterprises sectors
7. Introduction of seafarers' tax allowances to sea fisheries
8. Extension to fishing sector of Agricultural Relief from CAT
9. Exemption of certain income from leasing of privately owned fisheries and related land for use by commercial fisheries or seafood sector
10. Appropriate tax treatment to support proposed decommissioning scheme

All Marine Sectors

11. Enhanced marine tax measures for capital investment in marine energy efficiency equipment
12. Consideration of expanded measures to assist marine sector including pilot initiatives to support marine tourism

Other

13. On-going monitoring of costs and benefits

The recommendations have been designed to achieve strategic objectives for the sector so as to enable the sector to expand. These strategic objectives include:

- Facilitate additional investment to support growth;
- Assist viability and safety of fishing sector;
- Develop new Marine Market segments;
- Encourage investment in green technology and equipment;
- Support promotion of Ireland as international shipping centre;
- Encourage new entrants to fishing sector;
- Facilitate necessary capital investment in key ports and harbours;
- Enable fishing sector to undertake target de-commissioning of old vessels;
- Enable continuity of raw material supply for value added sectors; and,
- Assist in building companies of scale in seafood processing and aquaculture.

Acknowledgements

Indecon is grateful to members of the Marine Co-Ordination Group chaired by the Minister for Agriculture and Marine for their inputs to this study. We would also like to acknowledge the assistance and inputs of a large number of individuals and organisations throughout the course of this review. In particular, we are grateful for the helpful inputs from representative organisations, fishermen, sea food firms, shipping companies and port companies who contributed through Indecon's primary research and wider consultation process. Thanks are also to the 128 individuals and firms who responded to Indecon surveys for this assignment. We would also like to acknowledge the valuable assistance received from Denise O'Connell, Sinéad Reynolds, Seamus Milne and Gary Tobin from the Department of Finance and from Mary Lally and Catherine O'Sullivan from the Department of Transport, Tourism and Sport, and Noel Collins, Sean Bell and Cecil Beamish from the Department of Agriculture, Food and the Marine and Criona Brassill from the Department of Jobs, Enterprise and Innovation. We would also like to extend our thanks for the assistance provided by the IMDO, in particular Liam Lacey. We appreciate the assistance provided by the Revenue Commissioners, in particular Keith Walsh. We are also particularly grateful to the Chief Executive and the Board of the Marine Institute and for helpful inputs from IDA (Ireland), Údarás na Gaeltachta, Enterprise Ireland and BIM. We also note with thanks inputs from Killybegs Fishermen's Organisation, Irish Fish Producers Organisation, Irish South and West Fish Producers Organisation, and Irish Farmers Association. Thanks are also due to IBEC on behalf of the Irish Ports Association, the Irish Exporters Association, Irish Chamber of Shipping, Irish Harbour Masters Association, Irish Institute of Master Mariners, NMCI and Galway Chamber. Indecon are also appreciative of inputs from industrial ports including Port of Cork, Port of Dublin, Galway Harbour Company, Shannon Foynes Port Company, and from leading companies including Irish Continental Group, Burke Shipping, Arklow Marine Services, Indaver, as well as Dungarvan Shellfish and those who completed the Indecon survey.

The usual disclaimer applies and the findings in this independent report are, however, the sole responsibility of Indecon.

1 Introduction and Background

1.1 Introduction

This independent report is prepared by Indecon International Economic Consultants and is submitted to the Department of Finance and the steering group including the Department of Transport and Tourism and the Department of Agriculture and Marine. Indecon was appointed to conduct this review following a competitive tender process. The report concerns a review of tax incentives available to the marine sector and includes a rigorous evaluation of costs and benefits of existing measures, as well as a review of international taxation in the marine sector. Detailed consultations were also held with relevant stakeholders. On the basis of this review, Indecon has formulated recommendations for modifications to existing tax measures and for proposed new measures in order to enable the marine sector to expand.

1.2 Background and Scope of Review

This study is part of ongoing Department of Finance reviews of major tax expenditures and was undertaken jointly with the Department of Transport, Tourism and Sport (DTTas), Department of Jobs, Enterprise and Innovation (DJEI) and the Department of Agriculture, Food and the Marine (DAFM) and with the Revenue Commissioners. The Government, as outlined in the “Harnessing Our Ocean Wealth Strategy” has targeted doubling the value of Ireland’s blue economy by 2030. The overall objective of the review is to ensure there is a supportive financial environment underpinning this target and so to review the financial and taxation supports and opportunities available to the marine sector.

1.2.1 Scope of Review

The terms of reviews involves examining four sub-sectors which the marine industry, namely ports, shipping, fishing and seafood. The scope of the review included:

- A consultation process with the Marine Co-ordination Group and with key stakeholders;
- A review of the tax supports available to the maritime sector in Ireland in order to structure the tax system in a way that supports the development of the sector;
- A review of maritime tax-related policy measures in a number of other countries;
- An analysis of the benefits available to the sector and the wider economy versus the Exchequer costs of existing measures;
- The development of suggestions for any improvements that can be made to better achieve existing stated Government policy goals; and,
- The formulation of recommendations, if appropriate, for changes that could be made to enhance or maximise the value for money to the tax-payer, taking EU state aid considerations into account.

1.2.2 Context for Review and State Aids

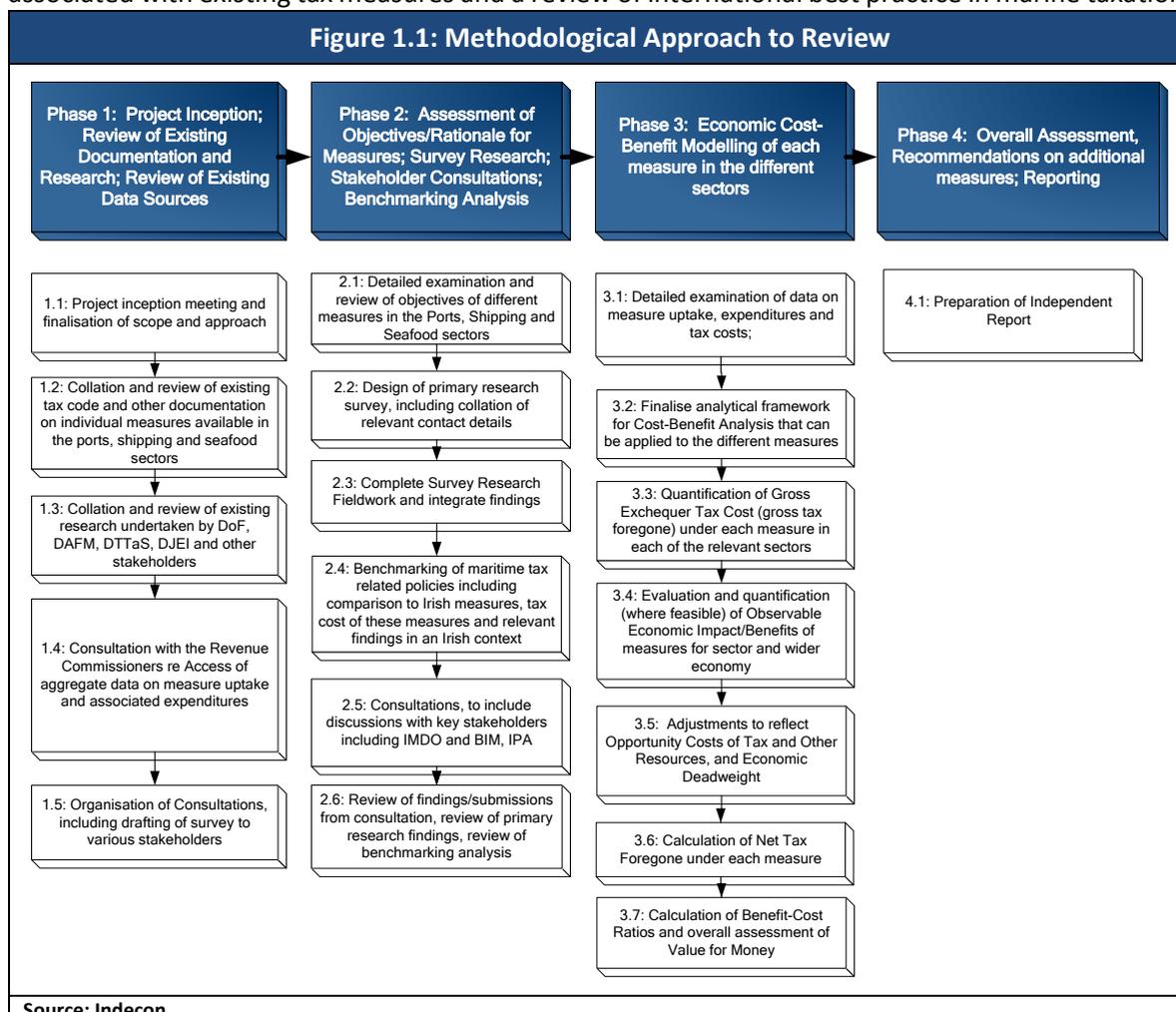
This Marine Taxation Review is part of a wider suite of initiatives and research which is being undertaken to develop the sector.

The remit of this review is confined to look only at taxation measures for certain sub sectors of marine, namely fishing, ports and shipping. It is important to note that extensive government supports for the marine sector particularly for the fishing and seafood processing, are via expenditure measures, which are outside the scope of this assignment.

In examining taxation measures it is also necessary to highlight that the European State Aid issues are very significant. While State Aid rules provide a constraint on new incentives for all sectors, these are particularly noteworthy in the marine sector as more restrictive State Aid provisions apply. Similar to the agriculture sector separate State Aid guidelines are applicable for the marine sector as specified under the 'Guidelines for the examination of State Aid to the Fishery and Aquaculture Sector'.

1.3 Methodological Approach

The methodological approach applied in this report is outlined in Figure 1.1 below. The approach included detailed stakeholder consultation, a rigorous evaluation of the costs and benefits associated with existing tax measures and a review of international best practice in marine taxation.



1.4 Structure of Report

The report is structured as follows:

- Section 2 examines the economic significance and potential of the marine sector in Ireland;
- Section 3 comprises a review of international marine tax measures;
- Section 4 reviews existing tax measures in the marine sector in Ireland;
- Section 5 summarises the tax contributions made to the Exchequer from the marine sector;
- Section 6 assesses the costs and benefits associated with the existing tax measures in Ireland;
- Section 7 summarises proposals from the stakeholder consultations; and,
- Section 8 presents Indecon’s recommendations for enhanced marine tax measures.

1.5 Acknowledgements and Disclaimer

Indecon is grateful to members of the Marine Co-Ordination Group chaired by the Minister for Agriculture and Marine for their inputs to this study. We would also like to acknowledge the assistance and inputs of a large number of individuals and organisations throughout the course of this review. In particular, we are grateful for the helpful inputs from representative organisations, fishermen, sea food firms, shipping companies and port companies who contributed through Indecon’s primary research and wider consultation process. Thanks are also to the 128 individuals and firms who responded to Indecon surveys for this assignment. We would also like to acknowledge the valuable assistance received from Denise O’Connell, Sinéad Reynolds, Seamus Milne and Gary Tobin from the Department of Finance and from Mary Lally and Catherine O’Sullivan from the Department of Transport, Tourism and Sport, and Noel Collins, Sean Bell and Cecil Beamish from the Department of Agriculture, Food and the Marine and Críona Brassill from the Department of Jobs, Enterprise and Innovation. We would also like to extend our thanks for the assistance provided by the IMDO, in particular Liam Lacey. We appreciate the assistance provided by the Revenue Commissioners, in particular Keith Walsh. We are also particularly grateful to the Chief Executive and the Board of the Marine Institute and for helpful inputs from IDA (Ireland), Údarás na Gaeltachta, Enterprise Ireland and BIM. We also note with thanks inputs from Killybegs Fishermen’s Organisation, Irish Fish Producers Organisation, Irish South and West Fish Producers Organisation, and Irish Farmers Association. Thanks are also due to IBEC on behalf of the Irish Ports Association, the Irish Exporters Association, Irish Chamber of Shipping, Irish Harbour Masters Association, Irish Institute of Master Mariners, NMCI and Galway Chamber. Indecon are also appreciative of inputs from industrial ports including Port of Cork, Port of Dublin, Galway Harbour Company, Shannon Foynes Port Company, and from leading companies including Irish Continental Group, Burke Shipping, Arklow Marine Services, Indaver, as well as Dungarvan Shellfish and those who completed the Indecon survey.

The usual disclaimer applies and the findings in this independent report are, however, the sole responsibility of Indecon.

2 Economic Significance and Potential of Marine Sector

This section provides an overview of the economic significance of the marine/maritime⁶ sector to the Irish economy. The targets set by the Government for maximising the potential of the sector are discussed.

2.1 Turnover & GVA in Marine Sector

Estimates for a wide definition of the economic significance of the marine sector are available from SEMRU.⁷ Turnover in the wider marine sector has increased each year since 2010 and SEMRU estimates that it amounted to €4.5 billion in 2014 which represents a 43% increase since 2010. Gross value added of the wider sector has also increased each year. The sector is estimated to have contributed an estimated €1.4 billion in value added to the Irish economy in 2014.

Table 2.1: Trend in Turnover and Gross Value Added of the Irish Marine Sector 2010-2014				
	2010	2012	2014 ^e	2010-2014 % change
Turnover - €billion	3.1	4.2	4.5	43%
GVA - €billion	1.2	1.3	1.4	18%

Source: SEMRU Data
 Note: figures for 2014 are estimated by the SEMRU. These estimates are the result of a forecasting exercise of the future turnover, GVA and employment in Ireland's Ocean Economy on a sector-by-sector basis. This methodology is based on published socio-economic data from the CSO, government economic forecasts and information obtained from interviews with marine-related enterprises and relevant government departments and agencies.

The economic value of the wider marine sector as a percentage of GDP is presented below. In 2014, the sector was estimated to account for 0.8% of total GDP in the Irish economy.

Table 2.2: Economic Value of Irish Marine Sector as % of GDP				
	2007	2010	2012	2014
Direct Economic Value (GVA) of Marine Sector as % of Irish GDP	1.0%	0.7%	0.7%	0.8%

Source: SEMRU Data

A breakdown of turnover by subsector is presented in Table 2.3. Shipping and maritime transport has the largest turnover followed by maritime tourism and leisure.

⁶ The terms "marine" and "maritime" are used interchangeably throughout this report and no technical distinction between the terms is made herein.

⁷ SEMRU is based in the College of Business, Public Policy and Law at NUI, Galway, with a main research focus on the economic importance of coastal and off-shore marine environments.

Table 2.3: Trend in Direct Turnover in the Irish Marine Sector by Detailed Market 2010-2014

	€Millions				% change
	2010	2012	2013	2014 ^e	2010-2014
Established Markets					
Shipping & Maritime Transport	1,270	2,006	2,067	2,108	66%
Marine Tourism & Leisure	723	645	671	715	-1%
International Cruise Industry	22	22	29	28	29%
Marine Retail Services	58	126	123	124	115%
Sea Fisheries	164	242	249	268	64%
Aquaculture	123	130	142	151	23%
Seafood Processing	390	515	478	520	34%
Oil & Gas Exploration & Production	126	132	138	144	15%
Marine Manufacturing Construction and Engineering	111	139	138	158	42%
Subtotal	2,984	3,956	4,032	4,216	41%
Emerging Markets					
High Tech Marine Products and Services	56	71	74	77	38%
Marine Commerce	54	87	108	130	142%
Marine Biotechnology & Bio-products	30	45	46	48	62%
Marine Renewable Energy	12	13	15	18	55%
Subtotals	151	215	244	273	81%
Total	3,135	4,172	4,276	4,489	43%

Source: SEMRU Data from "Ireland's Ocean Economy". Ref Year 2012.
Note: Figures for 2014 are estimates.

The estimated gross value added to the Irish economy of the sub-sectors within marine are presented in Table 2.4. Gross Value Added in shipping and marine transport amounted to over €450 million. The marine tourism and leisure subsectors accounted for over €286 million in GVA. Value added from sea fisheries was estimated at over €204 million. Other important subsectors with the scope of this study included seafood processing and aquaculture.

Table 2.4: Trend in Gross Value Added by the Irish Marine Sector by Detailed Market 2010-2014

	€Millions				% Change
	2010	2012	2013	2014 ^e	2010-2014
Established Markets					
Shipping & Maritime Transport	403.6	436.6	449.7	458.6	14%
Marine Tourism & Leisure	337.4	257.9	268.3	286.1	-15%
Marine Retail Services	33.9	40.1	38.9	39.3	16%
Sea Fisheries	93.4	178.2	189.5	204.5	119%
Aquaculture	46.2	60.6	65.8	71.4	55%
Seafood Processing	80	98.5	91.4	99.6	25%
Oil & Gas Exploration & Production	61.2	56.3	51.7	47.6	-22%
Marine Manufacturing Construction & Engineering	44	34.9	34.6	39.7	-10%
Subtotal	1,100	1,163	1,190	1,247	13%
Emerging Markets					
High Tech Marine Products and Services	20.8	38.6	43.5	49.2	137%
Marine Commerce	31.8	49.2	49.9	50.9	60%
Marine Biotechnology & Bio-products	12.99	18.8	19.7	20.7	59%
Marine Renewable Energy	3.6	7.1	9.8	13.5	275%
Subtotals	69.3	113.6	122.9	134.3	94%
Total	1,169	1,277	1,313	1,381	18%

Source: SEMRU Data. e = estimates

Turnover & GVA in Fishing and Aquaculture

Data on a more narrow definition of fishing and aquaculture and fish processing is available from the CSO national accounts. Output of fishing and aquaculture was estimated by the CSO to be of the order of €393 million in 2011.

Table 2.5: Output & Value Added in Fishing & Aquaculture 2011		
	Market output	Value added at factor cost
Fishing & Aquaculture -€m	393	132
Source: CSO National Accounts.		

Data on fish processing activities from the CSO Census of Industrial Production indicated turnover for fish, crustaceans and molluscs at over €514.5 million.

Table 2.6: Trend in Turnover in Fish, Crustaceans and Molluscs 2008-2012					
	2008	2009	2010	2011	2012
Turnover - €000	373,217	399,187	389,635	458,608	514,566
Exports - €000	243,466	226,361	233,997	254,303	236,527
Exports as % of Total Turnover	65%	57%	60%	55%	46%
Source: CSO Census of Industrial Production, Industrial Enterprises.					

2.2 Exports of Irish Seafood

One of the noteworthy features of the marine sector is the significance of exports of Irish seafood. Ireland exports seafood to 80 different markets worldwide of which the top markets include France, UK, Spain, Nigeria and Italy. Total seafood exports in Ireland were valued at €540 million in 2014.

Table 2.7: Irish Seafood Exports and Total Food and Drink Exports	
	2014
Value of Seafood Exports	€540 million
Source: Department of Agriculture Fact Sheet on Agriculture May 2015. Bord Bia.	

The trend in exports in the table below reveals a 70% increase in value of exports since 2009. The sector is also increasing dependent on exports and exports as a percentage of sales has increased significantly.⁸

Table 2.8: Trend in Seafood Sales of which Exports in the Irish Marine Sector 2009-2014						
	2009	2010	2011	2012	2013	2014 ^e
Exports - €millions	315	371	418	534	496	540
Exports as % of Total Sales	45%	52%	56%	65%	61%	
Source: Bord Bia Exports Performance and Prospects Report & BIM Annual Reports.						
Note: Exports as % of Sales was estimated using Bord Bia data on exports and BIM data on Sales.						

⁸ Bord Bia 'Export Performance and Prospects' publications.

2.3 Irish Marine Sector Compared to Selected EU Countries

It is useful as background to compare aspects of the Irish marine sector to selected EU countries and in particular to consider Ireland relative to Spain, UK, Italy and France.

It is firstly interesting to highlight a number of important countries in which aquaculture production is concentrated. These are Spain, UK, France, Italy and Ireland. In 2012, Ireland's total Aquaculture production amounted to 312,119 tonnes.

Table 2.9: Aquaculture Production in Selected EU Aquaculture Countries 2012	
Country	Tonnes 2012
Spain	1,194,178
UK	834,479
France	630,554
Italy	363,434
Ireland	312,119
Source: FAO World Fisheries Production Data.	

Presented below is the trend in fishing catch in selected EU countries. The figures highlight that while Ireland's catch amounted to over 275,000 tonnes, some other EU countries notably Spain, UK and France have much larger catches.

Table 2.10: Trend in Fish Capture Production in Selected EU Aquaculture Countries 2011-2013			
Country	Tonnes		
	2011	2012	2013
Spain	1,007,731	932,114	1,035,395
United Kingdom	600,548	631,458	632,345
France	525,238	498,786	563,143
Ireland	243,454	305,426	275,950
Italy	218,150	202,298	177,918
Source: FAO Fishery Statistical Collection. Global Capture Production.			

The numbers of fishing vessels for the selected EU aquaculture countries are shown for 2012 below. Ireland's fleet of fishing vessels was estimated to be of the order of 2,247 in 2012.

Table 2.11: Number of Fishing Vessels and Fishers in the Top Five EU Aquaculture Countries and Ireland 2012	
	Number of Fishing Vessels
Italy	12,766
Spain	10,115
UK	6,412
France	4,603
Ireland	2,247
Source: FAO World Fisheries Production Data.	

2.4 Employment in the Marine Sector

Employment is of key importance in considering the economic importance of the marine sector in Ireland. Both established and new emerging areas within the sector play a role in supporting existing jobs and creating employment opportunities. Estimated total employment of the marine sector set amounted to 18,480 full-time-equivalents (FTEs) in 2014. Of particular relevance is also the location of employment in the sector and its potential to create opportunities in regional areas and in local communities.

Table 2.12: Employment in the Irish Marine Sector			
	2010	2012	2014^e
Persons Employed – Full Time Equivalents	16,614	17,425	18,480
Source: SEMRU Data			

A breakdown of employment in the marine sector is shown in the table below. Sectoral areas employing the greatest number of persons include marine tourism and leisure, shipping and maritime transport, sea fisheries, seafood processing and aquaculture.

Table 2.13: Trend in Employment in the Irish Marine Sector by Detailed Market 2010-2014				
	2010	2012	2013	2014^e
Established Markets				
Shipping & Maritime Transport	4,137	3,978	3,892	3,949
Marine Tourism & Leisure	5,497	5,195	5,675	5,952
Marine Retail Services	252	728	730	731
Sea Fisheries	2,084	2,233	2,280	2,328
Aquaculture	952	956	960	964
Seafood Processing	1,586	1,839	1,854	1,869
Oil & Gas Exploration & Production	359	506	504	512
Marine Manufacturing Construction & Engineering	726	836	859	854
Emerging Markets				
High Tech Marine Products and Services	391	420	437	454
Marine Commerce	110	161	165	168
Marine Biotechnology & Bio-products	304	373	406	443
Marine Renewable Energy	216	200	226	255
Total	16,614	17,425	17,988	18,480
Source: SEMRU Data e= estimate				

Alternative BIM estimates for the Irish seafood sector suggest there were 11,000 persons employed in 2014. CSO employment data included in Annex 1 shows an estimated 1,800 employed in the aquaculture sector.

Table 2.14: Employment in the Irish Seafood Sector 2014			
	Full Time	Part Time	Total
Total Fisheries	3,924	1,060	4,984
Aquaculture	693	1,023	1,716
Processing	2,200	660	2,860
Ancillary	1,440		1,440
Total	11,000		11,000
Source: BIM Strategy 2013-2017.			

2.5 Economic Significance of Ports Sector

A summary of the significance of the port sector can be seen from examining how much Irish ports facilitate exports from Ireland.

SEMRU estimates in “Ireland’s Ocean Economy” that sea-based transport accounted for 92% of total volume and 67% of the total value of goods traded in Ireland in 2012. These estimates are higher than those indicated by CSO External Trade statistics, which suggest that sea-based trade accounts for 74% of total trade in volume terms and 41% in value terms. This difference is likely to relate to traffic using Northern Ireland ports which are excluded from the CSO estimates.

2.6 Targets and Future Projections for the Marine Sector

Two ambitious targets for the Irish marine sector have been set in the Government’s ‘Harnessing Our Ocean Wealth’ strategy document. These are to double the value of Ireland’s ocean wealth by 2030 and to increase turnover significantly by 2020 as outlined in the table below.

Table 2.15: Government Overarching Targets for Ireland’s Ocean Economy	
	Target 2030
Total Value of Ireland’s Ocean Wealth	2.4% of GDP
	Target 2020
Annual Turnover of Ireland’s Wider Marine Sector	€6.4 billion
Source: Harnessing Our Ocean Wealth – An integrated marine plan for Ireland.	

The target to double the value of our ocean economy to 2.4% of GDP implicitly relates to the direct and indirect value added of the sector. These targets are underpinned by the potential future growth areas identified by the Blue Growth study by the European Commission.⁹ This report identified the markets within the ocean economy with the greatest potential in terms of innovativeness, competitiveness, employment creation and sustainability.

⁹ European Commission (2012) Blue Growth: Scenarios and Drivers for Sustainable Growth from the Oceans Seas and Coasts. Third Interim Report.

The turnover target for 2020 represents an increase of €3 billion drawn from the wider marine sector. The breakdown of targets is presented. A target of €1 billion in turnover for the seafood industry was set out in the Food Harvest 2020 report while the IMDO 2020 project set a target for the marine commerce and ship leasing sector of €2.6 billion. These targets, among others such as a target of €1.2 billion for the ports and marine services make up the overall target of €6.4 billion.

Industry	Turnover Target 2020
Seafood (Fisheries, Aquaculture, Seafood Processing)	€1 billion
Marine Commerce and Ship Leasing	€2.6 billion
Marine and Coastal Tourism and Leisure	€1.5 billion
Marine ICT and Biotechnology	€61 million
Ports and Maritime Transport Services Maritime Manufacturing, Engineering, Offshore Oil and Gas and Other Marine Industries	€1.2 billion

Source: Harnessing Our Ocean Wealth – An integrated marine plan for Ireland.

It is useful to look in some detail at the targets for the seafood industry as set out in the Bord Iascaigh Mhara (BIM) strategy for 2013-2017. The target for seafood sales is €1 billion comprised of €350 million in domestic sales and €650 million in exports. In addition a target was set to have four companies operating at a level of turnover in excess of €50 million.

	Target 2017
Total Sales	€1 billion
Domestic Sales	€350 million
Export Sales	€650 million
Companies with turnover in excess of €50 million	4
Increase in volume of Aquaculture	78%
Expand Raw Material Supply	45,000 tonnes

BIM Strategy 2013-2017: Capturing Ireland's Share of the Global Seafood Opportunity.

The targets for the seafood sector included an ambitious plan to create an additional 1,200 jobs by 2017 over the previously estimated employment levels of approximately 11,000. In addition the sector aims to deliver 8,000 statutory FETAC accredited training places to fishermen.

	Target 2017
Jobs Created	1,200
Training Places Delivered	8,000

BIM Strategy 2013-2017: Capturing Ireland's Share of the Global Seafood Opportunity.

Indecon's assessment of the targets set is that they are ambitious and will require supportive taxation and other measures if they are to be achieved.

2.7 Summary of Findings

This section presented an overview of the economic contribution of the marine sector. The main findings for this section are as follows:

- ❑ Turnover for the wider marine sector amounted to €4.5 billion in 2014. The sector's direct value added amounted to €1.4 billion in 2014 (0.8% of total GDP).
- ❑ Total employment in the marine sector amounted to 18,480.
- ❑ The government's 'Harnessing Our Ocean Wealth' strategy aims to double the value of Ireland's ocean wealth to 2.4% of GDP by 2030 and to increase turnover to exceed €6.4 billion by 2020.

3 Review of Marine Tax Measures in Other Countries

3.1 Introduction

As part of our review we examined marine tax measures in a number of other countries and in particular in the UK, Netherlands, Denmark, Greece, France, Norway, Malta, Italy, Cyprus, Germany and Singapore. One of the noteworthy features of the international review is the presence of a tonnage tax and also seafarer tax deductions as well as capital allowances in other countries. It is useful to consider these in some more detail. While there are similarities in the treatment of the marine taxation, in some countries, aspects of their tax system are more supportive of the development of aspects of the marine sector.

We subsequently consider taxation measures in place to support the port and seafood/fisheries subsectors.

3.2 United Kingdom

Tonnage Tax

The UK operates a separate tonnage tax regime in addition to the standard corporation tax rules. Companies and groups which operate ‘qualifying ships’ which are strategically and commercially managed in the UK can opt into this regime. Under this regime, companies pay tax based on the net tonnage of the ships operated rather than by reference to the profits earned from such operations. Companies can choose between this regime (with a 10-year duration) or corporation tax, as is the case in Ireland. The regime can be extended beyond ten years. Profits from non-shipping activities are subject to the normal rules. The regime exempts shipping income, but tax relief from all expenditure incurred from generating such income is denied.¹⁰

A shipping company must meet the following criteria in order to be eligible for the tonnage tax regime:¹¹

- In the charge to UK corporation tax;¹²
- Operate a qualifying ship(s); and,
- Qualifying ships¹³ must be managed (both strategically and commercially) in the UK.

The UK operates an additional criterion called the 75% test. This means that the net tonnage chartered must not exceed 75% of total net tonnage of the fleet operated. This is calculated as an average over two years. If this rule is broken the company is ejected from the regime; they are then subject to UK corporation tax and cannot re-enter the tonnage tax regime.

¹⁰ Deloitte (2013) ‘Shipping Tax Guide’.

¹¹ Deloitte (2013) ‘Shipping Tax Guide’.

¹² A company is in the charge to UK corporation tax if they are tax resident in the UK either by virtue of incorporation or by or by central management and control being exercised in the UK.

¹³ Qualifying ships are those of 100 gross tonnes or more which are used for carriage by sea of cargo and or passengers, marine assistance or transport in connection with other services “of a kind necessarily provided at sea”.

The shipping company has a 12-month timeline in which it can opt between the ordinary corporation tax and the tonnage tax regime. The period starts from the date in which it began to qualify in terms of the criteria listed above. Once a company opts into the tonnage tax regime, there is no tax depreciation available and no claw-back of tax depreciation previously claimed. Exits from the regime may be voluntary but once a company has exited the scheme, it is excluded from re-entry except under special circumstances.¹⁴

The scope of what is defined by maritime activities for tax purposes is not discussed in the 1997 guidelines. Towing is considered a qualifying maritime activity while dredging is not. The 2004 guidelines state that assisting a self-propelled vessel to leave or enter the port is not a qualifying activity; however, the transport of extracted minerals at deep sea can be a qualifying activity.¹⁵

An important pre-commitment that companies must make when electing for the UK tonnage tax regime, is known as the minimum training obligation (MTO). This commitment requires companies to train or underwrite the training of sufficient UK/EEA seafarers. The MTO in respect of officers is to train one officer trainee per year for every fifteen deck and engineer officer posts of the company's effective officer complement. In respect of ratings, the company should review annually the feasibility of adopting each of the ratings employment and development options. Some trainees recruited under this commitment are eligible for UK government training support under the Support for Maritime Training (SMarT) scheme.¹⁶ The SMarT scheme supports courses approved by the Maritime and Coastguard Agency (MCA) and the Merchant Navy Training Board (MNTB) for the training of officers, officer cadets and ratings. It covers up to 50% of training costs and is paid to the training providers (shipping companies) who sponsor the trainees.¹⁷

Seafarers' tax deduction

An exception to employees resident in the United Kingdom who are taxable on their general earnings is the Seafarers' Earnings Deduction (SED).¹⁸ The Seafarers' Earnings Deduction is a tax deduction of 100% with respect to earnings abroad if their work has kept them out of the UK for a certain minimum period of time. The following conditions apply for eligibility:¹⁹

- The earnings are taxable under Section 15 (or Section 21 before 6 April 2008) ITEPA 2003 (general earnings for a year when the employee is ordinarily resident in the United Kingdom);
- The duties of the employment are performed wholly or partly outside the United Kingdom; and,
- Any of those duties are performed in the course of an eligible period falling wholly or partly in the tax year.

¹⁴ Deloitte (2013) 'Shipping Tax Guide'.

¹⁵ Department for Transport / Inland Revenue (2004) 'Post Implementation Review of Tonnage Tax'.

¹⁶ Department for transport (2013) 'Tonnage Tax Minimum Training Commitment - Overview'.

¹⁷ <https://www.gov.uk/support-for-maritime-training-smart>.

¹⁸ Part 5 Chapter 6 ITEPA 2003.

¹⁹ <http://www.hmrc.gov.uk/manuals/eimanual/EIM33001.htm>.

From April 2011, the Seafarers' Earnings Deduction was also extended to seafarers resident in an EEA State other than the UK, provided that these seafarers meet all the conditions of the relief.²⁰ In this instance, the deduction can be claimed against the part of their earnings arising from duties performed in UK waters.

The UK definition of seafarer comprises the performance of duties on a ship or of such duties and others incidental to them. This includes not only sailors but also anyone whose work is carried out on ships, such as cooks, entertainers and couriers on luxury liners.²¹

The calculation of an eligible period requires calculation of the number of days the seafarer has been absent from the UK. In this regard, a day counts as a day of absence if at midnight the employee is outside the United Kingdom. It does not matter whether work has been carried out on that day or not. It is also not necessary for duties of the employment to be performed during each and every period of absence.²² A return visit to the UK can also count towards the eligible period if:²³

- ❑ No single return visit lasts for more than 183 consecutive days; and,
- ❑ The total number of days spent in the UK is not more than one-half of the total number of days from the first day abroad to the last day of the period spent abroad after that return visit.

Days spent in the UK may only be counted if they occur between periods of absence.²⁴ For example, it is not possible to make a claim for a period of 365 days which consists of 183 days abroad followed by 182 days in the UK.

Duties performed by a seafarer outside the United Kingdom are treated by Section 383(1) of the ITEPA 2003 as being performed in the United Kingdom in the instance where:²⁵

- ❑ In the tax year in which the duties are performed, the employment is in substance one whose duties fall to be performed in the United Kingdom; and,
- ❑ The performance of duties outside the United Kingdom is merely incidental to the performance of duties in the United Kingdom.

²⁰ <http://www.hmrc.gov.uk/manuals/eimanual/EIM33001.htm>

²¹ <http://www.hmrc.gov.uk/manuals/eimanual/EIM33101.htm>.

²² <http://www.hmrc.gov.uk/manuals/eimanual/EIM33007.htm>.

²³ <https://www.gov.uk/government/publications/seafarers-earnings-deduction-hs205-self-assessment-helpsheet/hs205-seafares-earning-deduction-2015>

²⁴ *Ibid.*

²⁵ <http://www.hmrc.gov.uk/manuals/eimanual/EIM33031.htm>.

3.3 Taxation Support for Shipping

3.3.1 Netherlands

Tonnage

The Dutch tonnage tax model, which was introduced in 1996, has been adopted internationally by many shipping countries including Ireland. Under this model, the taxable base is calculated based on the net tonnage of the vessels instead of the operating profits and the amount deemed as profit is subject to ordinary corporation tax rates. Most systems operating the Dutch model also allow dredging and towing activities to qualify under the condition that more than 50% of these activities take place at sea. Chartering a vessel to a third party under a bareboat charter usually does not qualify under the Dutch tonnage tax model. Most systems also require that the vessel owner or bareboat charterer exercise certain management activities with respect to the vessel. In terms of qualifying vessels, additional vessels over and above those mentioned in the standard Dutch Model can qualify for the tonnage tax regime in the Netherlands. These include:²⁶

- Vessels used for transportation of goods or persons in relation to the exploration or exploitation of natural resources at sea;
- Vessels used for the exploration of the sea bed;
- Vessels used for cable or pipe laying on the sea bed; and,
- Vessels used for the provision of hoisting and lifting services at sea for vessels.

The Dutch model also operates a “lock-in period”, which requires that the shipping company must make the choice whether or not to opt in to the tonnage tax regime within a certain time period of commencing shipping activities in the country and must abide by this choice for a fixed period of time, usually 10 years.²⁷

Furthermore, capital gains are not usually subject to additional tax under the Dutch model. There are certain flag requirements under the Dutch model. An EU or EEA flag is generally required in EU countries and most regimes require the country flag for which the tonnage tax model is applied.²⁸

The Dutch tonnage tax model does not normally allow ship management activities to qualify for the tonnage tax regime.²⁹ However, the Netherlands applies an exception to this rule: performing commercial, technical and crew management for another company may qualify for the tonnage tax regime.

Shipping companies, who opt out of the tonnage tax regime and are therefore subject to ordinary commercial income tax, can apply for an accelerated depreciation for the vessel allowing owners to use up to 20% of a vessel’s depreciation potential per year. Investment allowances and/or accelerated depreciation are available for vessels which are specifically environmentally friendly or energy efficient.³⁰

²⁶ PWC (2015) ‘Choose Your Course: Corporate taxation of the shipping industry around the globe’.

²⁷ Ibid.

²⁸ Ibid.

²⁹ Ibid.

³⁰ PWC (2015) ‘Choose Your Course: Corporate taxation of the shipping industry around the globe’.

Seafarers

There is a special reduction of 40% of the income of seafarers who are Dutch residents and/or EU residents or residents of a country that is member of the EEA.³¹ It is not a requirement that the seafarer be liable for wage tax or national insurance contributions in the Netherlands in order to avail of the deduction. However, a seafarer working aboard a vessel flying the Dutch flag will in practice almost always be liable for income taxes or national insurance contributions in the Netherlands. The reduction may be applied in combination with partial tax exemptions for which the employee may be eligible in view of his working days outside Dutch territory.³²

If the seafarer is not a Dutch, EU or EEA citizen but is liable to pay income tax and/or national insurance contributions in the Netherlands, the deduction is 10% of wages. The provision only applies to vessels flying the Dutch flag and vessels which are operated at sea including in the transport of goods or persons and sailing CCVs.

3.3.2 Denmark

Tonnage

In the case of Denmark, only corporate legal entities can opt for the tonnage tax regime and permanent establishments of EU resident companies can also qualify. Qualifying vessels include those owned by taxpayers and vessels used under a bareboat chartered arrangement. In the case of Denmark, no more than 80% of the fleet's tonnage may consist of time chartered-in vessels without purchase options. The choice to opt in or out of the tonnage tax regime is fixed for 10 years. Capital gains on vessels are tax exempt for all vessels that are introduced into the tonnage tax system after 1st January 2007.³³ Similar to the Netherlands, technical and crew management activities for another company may qualify for tonnage tax regimes.

Seafarers

An annual tax deduction of DKK 56,900³⁴ is available for persons who earn income from working on board Danish or foreign ships. Where the ship has gross tonnage of or above 500t, the deduction rises to DKK 105,000³⁵ unless the ship is used for regular passenger voyages between ports in EU member states.³⁶

Work on board boulder-removal vessels, including suction dredging vessels, with means of self-propulsion and own cargo hold for transport of materials extracted from the seabed with a gross tonnage of 20t or more also qualifies for the seafarer tax deduction.³⁷

³¹ Ernst and Young Shipping Industry Almanac (2014) - [http://www.ey.com/Publication/vwLUAssets/Shipping_Almanac_2014/\\$FILE/EY-Shipping_Industry_Almanac_2014.pdf](http://www.ey.com/Publication/vwLUAssets/Shipping_Almanac_2014/$FILE/EY-Shipping_Industry_Almanac_2014.pdf)

³² http://www.tax-consultants-international.com/read/The_Dutch_tonnage_tax_regime

³³ PWC (2015) "Choosing Your Course: corporate taxation of the shipping industry around the globe".

³⁴ c. €7,600

³⁵ c. €14,068

³⁶ <http://www.dma.dk/SiteCollectionDocuments/Legislation/Acts/2011/L-622-14062011-%C3%A6ndring%20bes%C3%A6tning,%20beskatning%20af%20s%C3%B8folk,%20s%C3%B8mandsloven,%20handedsl%C3%A5dens%20velf%C3%A6rdsr%C3%A5d%20og%20sikkerhed.pdf>

³⁷ <http://www.dma.dk/SiteCollectionDocuments/Legislation/Acts/2005/L-386-27052005-Taxation%20of%20Seafarers%20Act-%C3%A6ndret%20ved%20425-428-343-1235-521.pdf>

Full income tax exemptions are available for seafarers working on Danish ships which are registered on the Danish International Register of Shipping under certain conditions. Specifically, “Persons, who are liable for taxation according to section 2(2) of the ‘kildeskatteloven’ (act on taxation at source) are not liable for taxation of the income earned from working on board a Danish ship, registered in the Danish International Register of Shipping and used for purposes, which could be covered by the Tonnage Tax Act”.³⁸ Seafarers additionally receive a small cash allowance to compensate for ordinary tax deductions such as interest expenses.³⁹

3.3.3 Greece

Tonnage

An alternative tonnage tax model to the ‘Dutch model’ is the so-called ‘Greek model’, which operates in some countries such as Greece, Malta and Cyprus.⁴⁰ Greek shipping companies are not subject to corporate tax, only tonnage tax. Greek flagged vessels built and registered in Greece are not subject to corporate or tonnage tax for the first 6 years. Tonnage tax in Greece provides an exemption from income tax liabilities on the profits derived from operating Greek and foreign flagged registered vessels.⁴¹ Under this model the taxable base is calculated based on the gross tonnage of the vessel instead of the operating profits. The tonnage tax applies to:

- ❑ Greek or foreign ship owning companies with vessels flying a Greek flag; and,
- ❑ Foreign ship-owning companies with a vessel flying a foreign flag but maintaining a ship management company in Greece that is exclusively engaged in ship management activities meeting certain criteria.

The regime also provides exemption from taxation on profit distributions to an unlimited number of intermediate holding companies up to the benefiting owner. The rates vary with the size of vessels. The taxable tonnage is calculated according to coefficients applied to a fixed number of set tonnage size groups/bands and the rate of tax varies with the age of the vessel. No other CIT or dividend withholding tax is levied on shipping profits.⁴² A 50% reduction for vessels operating regular routes between Greek/foreign ports or solely between foreign ports is applicable.

An annual financial contribution was imposed additionally for the years 2014-2016, which is equal to double the final amount of tonnage tax, payable for every vessel during the immediately previous year (starting from 2013).⁴³

Qualification for the Greek tonnage tax system is dependent on ownership as oppose to activities. Foreign ship-owning companies with vessels flying a foreign flag must have a ship management office in Greece. This model allows entrepreneurs⁴⁴ to apply for the regime.

³⁸ Ibid.

³⁹ Ernst and Young Shipping Industry Almanac (2014) - [http://www.ey.com/Publication/vwLUAssets/Shipping_Almanac_2014/\\$FILE/EY-Shipping_Industry_Almanac_2014.pdf](http://www.ey.com/Publication/vwLUAssets/Shipping_Almanac_2014/$FILE/EY-Shipping_Industry_Almanac_2014.pdf)

⁴⁰ PWC (2015) “Choosing Your Course: corporate taxation of the shipping industry around the globe”.

⁴¹ Deloitte (2013) ‘Shipping Tax Guide’.

⁴² PWC (2015) ‘Choose Your Course: Corporate taxation of the shipping industry around the globe’.

⁴³ PWC (2015) ‘Choose Your Course: Corporate taxation of the shipping industry around the globe’.

⁴⁴ Individual, foundations, legal entities, partnerships and permanent establishments.

Seafarers

There is a reduced rate of tax for seafarers compared to other employees. Seafarers pay income tax at the rate of 15% and officers and lower crew pay a rate of 10%.⁴⁵ This compares to income tax rates of 22%, 32% and 42% depending on the income bracket for the general population.⁴⁶ The issue of deductibility of seafarers' wages is irrelevant for shipping companies as they are not subject to corporate income tax.⁴⁷

3.3.4 France

Tonnage

France has implemented certain deviations from the standard rules which apply specifically to their maritime sector. In France, companies must derive at least 75% of their turnover from qualifying ship operations in order to opt for the French tonnage tax regime. Qualifying ship operations are defined as operations necessary to carry out maritime transport operations of passengers or goods, as well as maritime operations of towage on the high seas, sea rescue and other maritime assistance activities. Other operations not necessary for the fulfilment of maritime operations are excluded. The time frame within which the taxpayer is locked in is 10 years and penalties apply for abandoning the regime before the period is up. Capital gains are subject to the regular statutory tax rate in France. Eligible vessels include commercial vessels managed from France (strategically and commercially) and fly a French flag. In France, only legal entities subject automatically or under option to French CIT can opt for the tonnage tax system. Eligibility for the French tonnage tax regime is reserved for commercial vessels which fall under the following criteria:⁴⁸

- ❑ Gross tonnage equal to or greater than 50 UMS;
- ❑ Fully owned or co-owned with the exception of those vessels chartered on a bareboat basis to companies;
- ❑ Neither directly or indirectly affiliated, nor to affiliated companies that have not themselves opted for the system, or that are bareboat or time chartered; and,
- ❑ Have not been purchased from companies that are directly or indirectly associated during the election period to this regime and that themselves have opted for this system.

The territorial economic contribution has replaced the professional tax which all entities exercising a professional activity in France are liable, including if they are subject to tonnage tax. However, rules have been specified which allow shipping companies to only be subject to the CVAE in respect of the portion of their added value from operations carried out within the limits of the national territory,⁴⁹ which are directly linked to the operation of vessels.⁵⁰

Seafarers

⁴⁵ Ernst and Young Shipping Industry Almanac (2014) - [http://www.ey.com/Publication/vwLUAssets/Shipping_Almanac_2014/\\$FILE/EY-Shipping_Industry_Almanac_2014.pdf](http://www.ey.com/Publication/vwLUAssets/Shipping_Almanac_2014/$FILE/EY-Shipping_Industry_Almanac_2014.pdf)

⁴⁶ http://europa.eu/youreurope/citizens/work/taxes/income-taxes-abroad/greece/index_en.htm

⁴⁷ Ernst and Young Shipping Industry Almanac (2014) - [http://www.ey.com/Publication/vwLUAssets/Shipping_Almanac_2014/\\$FILE/EY-Shipping_Industry_Almanac_2014.pdf](http://www.ey.com/Publication/vwLUAssets/Shipping_Almanac_2014/$FILE/EY-Shipping_Industry_Almanac_2014.pdf)

⁴⁸ PWC (2015) 'Choose Your Course: Corporate taxation of the shipping industry around the globe'.

⁴⁹ Operations where the departure point and arrival point are within France are eligible.

⁵⁰ PWC (2015) 'Choose Your Course: Corporate taxation of the shipping industry around the globe'.

Seafarers who have their fiscal residence in France and sail on-board vessels registered under the French Flag Register (RIF) receive a tax exemption on the portion of their wages corresponding to non-French activity, provided they spend at least 183 days outside France (excluding weekends/days off/holidays) over a 12-month period. Seafarers on board vessels not registered under the RIF receive an exemption provided they spend at least 183 days outside France (excluding weekends/days off/holidays) over a 12-month period and establish paying non-French income tax equal to at least two-thirds of the equivalent French tax.⁵¹

Where these conditions are not fulfilled, seafarers can avail of exemptions to supplemental amounts, contractual bonuses or per-diems earned for foreign duty. These exemptions are at a maximum of 40% to 60% of the remuneration corresponding to their non-French activity. These exemptions are taken into account in determining the effective rate of tax applicable to remaining taxable income.

3.3.5 Norway

Tonnage

Norway operates according to the 'Dutch tonnage' tax model. The time period for the regime is 10 years; companies in Norway can opt out at any stage but will consequently not be eligible for the rest of the period. In terms of qualifying activities, Norway specifies that it is not a requirement for taxation within the tonnage tax regime that the company perform management activities with respect to the vessel. Private and public limited liability companies can qualify for the tonnage tax regime in Norway. Partnership shares may be qualifying/legal assets for a tonnage taxed company. Norway specifies that a tonnage taxed company is not allowed to have income from non-tonnage-taxed activities, except for financial income. In relation to ship management activities, in Norway a tonnage taxed company can perform management services for other group companies of which they have more than 50% joint ownership.⁵²

A tonnage-taxed company must own at least one qualifying asset,⁵³ new building contracts, a 3% ownership share in another tonnage-taxed limited company, or a 3% ownership interest in a partnership or CFC company that has at least one qualifying asset. As long as the tonnage taxed company owns at least one qualifying asset, profits from operation of vessels that are hired on bareboat charter or time charter are exempt from taxation without limitations.⁵⁴

Seafarers

In Norway Seafarers whose main occupation is on board vessels in service for at least 130 days per year are eligible for the seafarers' allowance.⁵⁵ The seafarers' deduction is 30% of taxable income earned on board up to NOK 80,000. The basis for calculating the deduction includes ordinary gross pay plus other taxable remuneration paid to the taxpayer and which is remuneration for work on board, or which replaces such remuneration.

⁵¹ Ernst and Young Shipping Industry Almanac (2014) - [http://www.ey.com/Publication/vwLUAssets/Shipping_Almanac_2014/\\$FILE/EY-Shipping_Industry_Almanac_2014.pdf](http://www.ey.com/Publication/vwLUAssets/Shipping_Almanac_2014/$FILE/EY-Shipping_Industry_Almanac_2014.pdf)

⁵² PWC (2015) 'Choose Your Course: Corporate taxation of the shipping industry around the globe'.

⁵³ i.e. a vessel, for example bulk, tankers, container vessels, car carriers, tugboats, and entrepreneurial vessels and auxiliary vessels for use in the petroleum industry.

⁵⁴ PWC (2015) 'Choose Your Course: Corporate taxation of the shipping industry around the globe'.

⁵⁵ <https://www.skatteetaten.no/upload/taxnorway/2015/Temabrev/2015-16%20Sj%C3%B8mannsfradrag-ENG.pdf>

Qualifying ships in service include:⁵⁶

- Ships engaged in international shipping which have their own propulsion machinery, irrespective of the size of the ship;
- Vessels used in the petroleum activities that are engaged in supply, standby and anchor handling services, seismic or geological surveys and other comparable activities, as well as construction, pipe-laying or maintenance activity;
- Naval vessels on active service; and,
- Ships of 100 gross register tons or more that have their own propulsion machinery (and are not excluded based on the exceptions set out below).

Certain ships are not deemed to be ships in service for the purposes of the seafarers' allowance; these include:⁵⁷

- Ferries or passenger vessels (only sailing between Norwegian ports where the distance between the first and last port of call is less than 300 nautical miles);
- Vessels used in petroleum activities that are engaged in exploration, exploration drilling, extraction, exploitation and pipeline transportation;
- Ships that sail on Norwegian lakes and rivers;
- Ships engaged in stationary activity and harbour traffic or other activity over a limited distance where the distance sailed does not exceed 30 nautical miles;
- Accommodation ships or ships used as work platforms, missionary ships, theatre ships etc.
- Pleasure craft, vessels used for hospitality purposes, shuttle boats etc.; and,
- Fishing, whaling and sealing vessels, but only for the period the vessel is used for fishing and whaling/sealing.

3.3.6 Malta

Malta has the largest ship register in Europe.⁵⁸ All types of vessels including pleasure yachts and oil rigs can be registered under the Maltese flag and Maltese authorities encourage this in an effort to promote Malta's maritime shipping sector and registration is relatively restriction-free. Owners, charterers, and financiers of Maltese or community (including EEA) ships of over 1,000 net tonnes are entitled to a complete tax exemption and no tax is payable on dividends paid to the shareholders.

⁵⁶ Ibid.

⁵⁷ Ibid.

⁵⁸ Deloitte (2013) 'Shipping Tax Guide'.

In Malta, a shipping organisation is exempt from:⁵⁹

- Tax on any income derived from shipping activities;⁶⁰
- Tax on Income or gains derived from the sale or other transfer of a tonnage tax ship or from the disposal of any rights to acquire a ship which qualifies as a tonnage tax ship;
- Tax on any gains arising upon the liquidation, redemption, cancellation, or any other disposal of shares, securities or any other interest, including goodwill, held in any licensed shipping organisation owning, operating, administering or managing a tonnage tax ship while she was a tonnage tax ship;
- Tax on any payments of interest or other income in relation to the financing of the operations of shipping organisations or the financing of any tonnage tax ship;
- Tax on dividends distributed by a shipping organisation to its shareholders, out of profits derived from shipping activities;
- Duty in respect of any instrument connected with or involving the registration of a tonnage tax ship, the sale or other transfer of a tonnage tax ship or any share thereof, the assignment of any rights and interests or the assumption of obligations in respect of any ship or share thereof;
- Duty in respect of any instrument connected with or involving the issue or allotment of any security or interest of a licensed shipping organisation or the purchase, transfer, assignment or negotiation of any security or interest of any licensed shipping organisation; and,
- Duty in respect of any instrument connected with or involving the registration of any mortgage or other charge over or in relation to any ship or licensed shipping organisation, any transfer or discharge thereof, any receipt relative thereto and any assignments granted in connection therewith.

Tonnage

Malta operates according to the Greek tonnage tax model for which there are size scales based on the gross tonnage of the vessel and rates based on the age of the vessel.⁶¹ In particular, Malta uses 8 size groups and applies a fixed amount of tax per group plus an amount of tax for exceeding tonnage. Qualifying activities for Malta include:

- International maritime transport of goods and passengers;
- Towing and dredging, subject to certain conditions; and,
- Ship management activities, provided applicable conditions are satisfied.

⁵⁹ Deloitte (2013) 'Shipping Tax Guide'.

⁶⁰ "Shipping activities" comprises the international carriage of goods or passengers by sea or the provision of other services to or by a ship as may be ancillary thereto or associated therewith including the ownership, chartering or any other operation of a ship and includes also ship management activities of a ship manager.

⁶¹ PWC (2015) "Choosing Your Course: corporate taxation of the shipping industry around the globe".

A legal entity, qualified as a licenced shipping organisation, is eligible for the tonnage tax regime in Malta. E/EEA flagged vessels and certain non-EU flagged vessels qualify. Ship management activities can qualify for tonnage tax benefits. The tonnage tax regime in Malta is mandatory by law for vessel owners. This means the registration fee and annual tax are payable irrespective of whether or not the benefits are made use of. Companies may opt out of the regime but this decision is irrevocable. Under this model, capital gains on vessels are not taxed and in particular to Malta, no deferred tax liabilities arise.⁶²

Seafarers

Individuals who are both resident and domiciled in Malta are subject to tax in Malta on their worldwide income, including foreign income remitted to Malta and capital gains arising in Malta.⁶³ The marginal tax rates are at progressive rates from 0% to 35%. Employees who wholly or mainly work outside Malta are generally eligible for favourable tax treatment at the rate of 15% on foreign source income, but seafarers employed by Maltese companies are not eligible for such favourable tax treatment.⁶⁴

3.3.7 Italy

Tonnage

Italy operates according to the Dutch tonnage tax model and also offers other tax-related shipping incentives. Certain additional requirements in relation to qualifying activities, such as training requirements, must be met in Italy. Italy specifies that no more than 50% of the fleet's tonnage may be chartered-in. Participants of the tonnage tax regime in Italy may opt in to the regime at any time and can opt out of the fixed 10-year period but will be excluded from tonnage taxation for the remainder of the period. Capital gains are not subject to additional tax in this regime. However, if a vessel is acquired at a moment when the tonnage tax regime does not apply yet, and sold when the regime does apply, a part of the capital gain is subject to ordinary taxation.⁶⁵

In Italy, companies that have not made use of the tonnage tax regime can still make use of some of its facilities. In particular, income arising from the use of vessels registered in the international Italian Registry is 80% tax exempt for Italian corporate income tax purposes.⁶⁶

Seafarers

In Italy, wages paid to seafarers working on a vessel that flies the Italian flag are subject to Italian pension and social security contributions. To ensure against double social security taxation and ensure benefit coverage, Italy has entered into agreements with several countries that supply seafarers to foreign vessels.⁶⁷

Shipping companies are exempt from paying social security and from withholding tax on seafarers embarked on vessels registered in the Italian international shipping register.⁶⁸

⁶² Ibid.

⁶³ Deloitte (2013) 'Shipping Tax Guide'.

⁶⁴ Ernst and Young Shipping Industry Almanac (2014) - [http://www.ey.com/Publication/vwLUAssets/Shipping_Almanac_2014/\\$FILE/EY-Shipping_Industry_Almanac_2014.pdf](http://www.ey.com/Publication/vwLUAssets/Shipping_Almanac_2014/$FILE/EY-Shipping_Industry_Almanac_2014.pdf)

⁶⁵ PWC (2015) "Choosing Your Course: corporate taxation of the shipping industry around the globe".

⁶⁶ Ibid.

⁶⁷ Ernst and Young Shipping Industry Almanac (2014) - [http://www.ey.com/Publication/vwLUAssets/Shipping_Almanac_2014/\\$FILE/EY-Shipping_Industry_Almanac_2014.pdf](http://www.ey.com/Publication/vwLUAssets/Shipping_Almanac_2014/$FILE/EY-Shipping_Industry_Almanac_2014.pdf)

⁶⁸ Ibid

3.3.8 Cyprus

Under the merchant shipping law in Cyprus, a qualifying vessel is a seagoing vessel which is:

- ❑ Certified in line with international principles and legislation of the flag country; and,
- ❑ Registered in the register of a member country of the IMO⁶⁹ and ILO.⁷⁰

Vessels which transport humanitarian aid are included in the definition of a qualifying vessel but excluded from the definition are boats used for athletic or entertainment purposes, boats constructed for domestic navigation, ferry and trailer boats, fixed off-shore constructions not used for maritime transport, non-self-propelled floating cranes, non-seagoing trailers, floating hotels and restaurants and floating or movable casinos. A qualifying ship manager is a legal person tax resident in Cyprus providing technical and or crewing services in respect of qualifying vessels.⁷¹

Tonnage

The payment of tonnage tax on the net tonnage of the vessel rather than corporation tax on profits is a feature of the Cyprus shipping tax regime and unusually this is regulated by the Department of Merchant Shipping and not the Tax Authorities.⁷²

The current shipping tax regime in Cyprus provides complete tax exemption on all profits and dividends arising from the operation of ships in any shipping activity between Cyprus and ports abroad or between foreign ports. In particular, the sale and mortgages on ships and related documents are exempt from stamp duty payable. The sale or transfer of a ship or shares in a shipping company is also exempt from capital gains tax payments. The regime is unique in that it allows mixed activities (shipping activities subject to tonnage tax and other activities subject to corporation tax) and split ship-management activities (crewing or technical).⁷³

For ship managers the option exists to pay tonnage tax at 25% of rates applicable to ship owners and charterers and the tax exemption covers profits from technical and/or crew management, dividends paid out of the profits at all levels of distribution, interest income relating to the working capital/qualifying activity used to pay expenses relating to ship management, excluding interest on capital used for investment.

Income arising from the provision of ship-management services is subject to a special ship-management tax calculated at 25% of the tonnage tax rates. Ship managers may opt to be taxed under corporation tax at 4.25%. Dividends distributed out of profits generated from ship-management activities are totally tax exempt and are not subject to the 15% special contribution for defence which normally applies.⁷⁴

Seafarers

All seafarers' wages are exempt from tax in Cyprus.⁷⁵

⁶⁹ International Maritime Organisation.

⁷⁰ International Labour Organisation.

⁷¹ Deloitte (2013) 'Shipping Tax Guide'.

⁷² Deloitte (2013) 'Shipping Tax Guide'.

⁷³ Deloitte (2013) 'Shipping Tax Guide'.

⁷⁴ Deloitte (2013) 'Shipping Tax Guide'.

⁷⁵ Ernst and Young Shipping Industry Almanac (2014) - [http://www.ey.com/Publication/vwLUAssets/Shipping_Almanac_2014/\\$FILE/EY-Shipping_Industry_Almanac_2014.pdf](http://www.ey.com/Publication/vwLUAssets/Shipping_Almanac_2014/$FILE/EY-Shipping_Industry_Almanac_2014.pdf)
<http://www.cipa.org.cy/en/growth-sectors/cyprus-investment-sectors/shipping>

3.3.9 Germany

Tonnage

Germany's tonnage tax model is the Dutch model and is calculated in the standard way. The time period for Germany's regime is 10 years and participants can opt out but will be excluded from further tonnage taxation until the end of the period. In the case of Germany, the provision of technical and crew management activities for other companies may qualify.⁷⁶ To qualify for the tonnage tax regime, a vessel must be registered in the German Shipping Register.⁷⁷

Seafarers

Taxation of seafarers on German-flagged seagoing ships differs. The kind of tax liability applicable to the seafarer depends on his legal domicile or usual residence. Unlimited tax liability applies to seafarers if their legal domicile or usual residence is in Germany, regardless of where their income is generated. Limited tax liability for domestic income applies to seafarers who have neither their legal domicile nor their usual residence in Germany.⁷⁸ In this case, German tax is to be paid by the seafarer only for that part of his income which has been generated in German territorial waters and on the high seas.⁷⁹

In addition, employers of seafarers may retain 40% of payroll tax from the seafarer's wage payment if the seafarer has worked for more than 183 consecutive days on ships owned or chartered by the employer, if the ship is registered in the German Shipping Register and flies the German flag and if the ship transports goods or passengers between or to foreign ports or from a foreign port to the main sea.⁸⁰

3.3.10 Singapore

Tonnage Tax

In Singapore an annual tonnage tax based on the net tonnage of the vessel applies to the maritime sector in Singapore. The tax is set at SGD0.20 per net tonne, with a minimum payment of SGD100 (for ships with net tonnage of 500) and up to a maximum payment of SGD10,000 for ships with net tonnage of 50,000. In addition, a range of other favourable treatments of international shipping income is provided.

Income derived by a company in Singapore's maritime sector is subject to corporate income tax of 17%. The tax is reduced via a partial exemption via calculating the net chargeable income which is equal to the sum of 75% of the first SGD10,000 of chargeable income and 50% of the next SGD290,000. Singapore's Maritime Sector Incentive (MSI) scheme-award incorporates all tax incentives for the sector. This scheme provides a range of favourable tax treatments for international shipping operations and for supporting shipping services.⁸¹

⁷⁶ PWC (2015) "Choosing Your Course: corporate taxation of the shipping industry around the globe".

⁷⁷ Ernst and Young Shipping Industry Almanac (2014)

⁷⁸ The usual residence of a seafarer on a German-flagged ship is only assumed to be not in Germany if the ship is more than 183 days in foreign territorial waters or ports and the seafarer has a contract of hire for a period of not more than 365 consecutive days.

⁷⁹ <http://www.deutsche-flagge.de/en/financial-matters/taxation-of-seafarers>

⁸⁰ Ernst and Young Shipping Industry Almanac (2014)

⁸¹ Deloitte (2013) 'Shipping Tax Guide'.

In the case of international shipping operations, Singapore provides the following:

- ❑ Tax exemption on certain prescribed shipping income;
- ❑ Automatic withholding tax exemption on qualifying payments made in respect of qualifying foreign loans taken to finance the purchase or construction of both Singapore-flagged and foreign-flagged ships;
- ❑ A resident shipping company can also apply for the AISE⁸² scheme which permits the income derived from the operation/charter of the shipping companies' fleet of foreign ships to be tax exempt; and,
- ❑ Bareboat, voyage and time charter payments to non-residents for the use of ships are currently exempt from Singapore withholding tax.

Qualifying ship operators starting out in Singapore on a smaller scale can also avail of favourable tax benefits for five years including tax exemption on qualifying income derived from operating foreign flagged ships.⁸³

The tax treatment in Singapore for supporting shipping services includes:

- ❑ Incremental qualifying income derived from the following services is subject to a concessionary tax rate of 10%: ship management, ship agency and shipping freight logistic services, ship broking and forward freight agreement trading, and qualifying corporate services; and,
- ❑ Tax exemptions gains from the disposal of vessels, vessels under construction and foreign vessels for qualifying ship operators and ship lessors.

Seafarers

The income of crew working aboard a Singapore ship is exempt from tax where the employment takes place substantially outside Singapore.⁸⁴ For a seafarer working aboard a foreign ship, if the ship operates exclusively on foreign ports, the seafarer's income will not be liable to Singapore income tax. If the foreign ship is operating between Singapore and foreign ports, the authorities will take into account the residency of the company employing the seafarer in determining the taxability of the seafarer's employment income. If the company is incorporated or resident in Singapore, the employment income may be deemed to be Singapore sourced income and the seafarer could have to pay Singapore income tax. If the company is incorporated or resident outside of Singapore, the employment income relating to days spent in Singapore waters may be liable to tax in Singapore, subject to the 60 day de minimis rule and any applicable treaty relief.⁸⁵

⁸² Approved International Shipping Enterprise.

⁸³ Fact sheet on Tax Changes for Maritime Businesses – Maritime and Port Authority of Singapore - http://www.nas.gov.sg/archivesonline/data/pdfdoc/20110315002/factsheets_on_tax_changes.pdf

⁸⁴ Ernst and Young Shipping Industry Almanac (2014) - [http://www.ey.com/Publication/vwLUAssets/Shipping_Almanac_2014/\\$FILE/EY-Shipping_Industry_Almanac_2014.pdf](http://www.ey.com/Publication/vwLUAssets/Shipping_Almanac_2014/$FILE/EY-Shipping_Industry_Almanac_2014.pdf)

⁸⁵ Ibid

3.4 Other Marine Related Tax Measures

Fuel Tax Exemption/VAT Reliefs

In the EU, many countries provide a tax exemption from fuel used by certain vessels, which relates to excise taxes directed at specific fuels.⁸⁶ The Council Directive 2003/96/EC states that MS shall be exempt from taxation on “energy products supplied for use as fuel for the purposes of navigation within Community waters (including fishing)”.⁸⁷

EU countries with the fuel tax reduction/exemption include: Belgium, Bulgaria, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Italy, Ireland, Latvia, Lithuania, Netherlands, Romania, Slovenia, Spain, Sweden, United Kingdom, Poland, and Portugal. The directive is implemented differently across Member States, for example in Denmark, Sweden and Germany, the excise duties applied are higher than the minimum rate set by the Directive. The rate is set equal to the minimum value in countries such as Spain and Lithuania.

Outside the EU, fuel tax reductions are in place Australia, Canada, Japan, Mexico, New Zealand, Norway, Turkey, and United States.⁸⁸

In the UK fuel excise duty relief is available. Commercial vessels undertaking marine voyages are eligible for relief on fuel used, subject to certain requirements.⁸⁹ Relief can be claimed on heavy oil such as gas or fuel oil and on light oil such as petrol. A marine voyage is defined as a voyage in which the vessel is, at all times, either within the limits of a port or at sea.

Accelerated Depreciation/Capital Allowances

Accelerated depreciation for the purposes of seagoing vessels is currently available in a number of EU countries including Germany, the Netherlands, Belgium, Luxembourg, and Spain. In Belgium, over a period of eight years, seagoing vessels may use accelerated depreciation. Depreciation is permitted on a straight line basis.

For newly built seagoing vessels and second-hand vessels acquired for the first time by a Belgium-based taxpayer, the rates are as follows: 20% (first year), 15% (second and third years) and 10% for subsequent years.⁹⁰ In France, seagoing vessels may be depreciated over eight years at the annual rate of 28.125% for the first five years and 33.33% for the remaining three years. The depreciation is permitted for second-hand shipping vessels provided that the length of life retained is eight years for shipping vessels and six years for fishing boats.⁹¹ In the Netherlands, where shipping companies qualify for the tonnage based tax but do not opt for it, they can avail of accelerated depreciation of the vessels. This involves an annual depreciation rate of 20% of the initial cost less residual value. The allowance for accelerated depreciation is only applicable where the shipping company is profitable; where the shipping company is loss making, part of the 20% figure cannot be applied to reduce profits and the remainder will be added to the 20% in the next year.⁹²

⁸⁶ Fuel Subsidies in the EU Fisheries Sector (2011) [http://www.europarl.europa.eu/RegData/etudes/note/join/2013/513963/IPOL-PECH_NT\(2013\)513963_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/note/join/2013/513963/IPOL-PECH_NT(2013)513963_EN.pdf)

⁸⁷ Ibid page 9.

⁸⁸ Ibid

⁸⁹ HMRC, Notice 263: marine voyages – relief from fuel duty, <https://www.gov.uk/government/publications/excise-notice-263-marine-voyages-excise-duty-relief-for-mineral-hydrocarbon-oil/notice-263-marine-voyages-excise-duty-relief-for-mineral-hydrocarbon-oil>

⁹⁰ Ernst and Young Shipping Industry Almanac (2014) - [http://www.ey.com/Publication/vwLUAssets/Shipping_Almanac_2014/\\$FILE/EY-Shipping_Industry_Almanac_2014.pdf](http://www.ey.com/Publication/vwLUAssets/Shipping_Almanac_2014/$FILE/EY-Shipping_Industry_Almanac_2014.pdf)

⁹¹ Ibid

⁹² Ibid

In many countries accelerated capital allowances are available for investment in plant and machinery including for the marine sector. For example, capital allowances on qualifying plant and machinery are available in the UK. In most cases, the full cost of the plant and machinery can be deducted from pre-tax profits using the Annual Investment Allowance.⁹³ The AIA can be claimed on plant and machinery up to a total of £500,000 until the 31st of December 2015.⁹⁴ Writing down allowances can then be claimed on expenditure exceeding £500,000. Enhanced capital allowances are also available for certain energy and water efficient equipment, including energy saving equipment included on the energy technology product list.⁹⁵ Expenditure on such equipment qualifies for a first year allowance without counting towards the AIA limit of £500,000. From the 1st of January 2016, the permanent level of the Annual Investment Allowance will be set at £200,000 for all qualifying investment in plant and machinery.⁹⁶ This provides a much more attractive allowance that would apply to similar investments in the Irish marine sector.

Under UK legislation, docks do not qualify as plant and machinery for the purposes of capital allowances.⁹⁷ Dock undertakings previously qualified under the definition of an industrial building or structure for the purposes of the Industrial Buildings Allowance,⁹⁸ but the Industrial Buildings Allowance was withdrawn over four years following Budget 2007.⁹⁹ A dock undertaking was defined to include any harbour and any wharf, pier, jetty or other works in or at which vessels can unship merchandise or passengers other than a pier or jetty primarily used for recreation.¹⁰⁰

3.5 Incentives for Ship Leasing

In a number of countries new measures have been introduced to facilitate international ship lease. For example, in Singapore incentives are provided for ship leasing. These include:

- ❑ No tax for ship lessors including income derived from finance leasing of ships; and
- ❑ 5% or 10% tax rate on certain prescribed qualifying income in addition to automatic withholding tax exemption on payments made in respect of loans taken to finance the purchase or construction of both Singapore-flagged and foreign-flagged ships and acquisition of qualifying containers and intermodal equipment.

Norway also has the Limited Partnership (KS) structure which allows off-balance sheet financing for ship owners.¹⁰¹ The KS is a single purpose limited partnership, consisting of one general partner (who must hold a minimum share of 10%) and several limited partners. The general partner has unlimited liability towards the company's creditors, while the limited partners' obligations are limited to their share of the total committed capital. In the event that one of the limited partners defaults, however, the other partners hold a joint liability towards the KS. Of the total committed capital, 40% is restricted according to the Norwegian Companies Act where 50% has to be paid upon formation of the partnership and the rest within two years. The partnership is not subject to tax but investors resident in Norway are subject to Capital Gains Tax.

⁹³ Gov.uk, Claim Capital Allowances – What you can claim on, <https://www.gov.uk/capital-allowances/what-you-can-claim-on>

⁹⁴ Gov.uk, Claim Capital Allowances – Annual Investment Allowance, <https://www.gov.uk/capital-allowances/annual-investment-allowance>

⁹⁵ Gov.uk, Claim Capital Allowances- First year allowances, <https://www.gov.uk/capital-allowances/first-year-allowances>

⁹⁶ Gov.uk, Annual Investment Allowance: permanent increase to £200,000. <https://www.gov.uk/government/publications/annual-investment-allowance-permanent-increase-to-200000/annual-investment-allowance-permanent-increase-to-200000#general-description-of-the-measure>

⁹⁷ Gov.uk, Claim Capital Allowances, <https://www.gov.uk/capital-allowances/what-you-can-claim-on>

⁹⁸ HMRC, TTM09400 – Capital Allowances: Industrial Buildings <http://www.hmrc.gov.uk/manuals/ttmmanual/ttm09400.htm>

⁹⁹ HMRC, CA34510 – IBA: writing down allowances: conditions <http://www.hmrc.gov.uk/manuals/camanual/CA34510.htm>

¹⁰⁰ HMRC, CA32205 – IBA: Qualifying trade: Meaning thereof, <http://www.hmrc.gov.uk/manuals/camanual/CA32205.htm>

¹⁰¹ Deloitte (2013) 'Report Shipping Finance Forum – Who is picking up the tab?', <http://www2.deloitte.com/content/dam/Deloitte/global/Documents/dttl-er-shipfin2013-08072013.pdf>

3.6 Voluntary Tax Budgeting Scheme for Share Fishermen

In the UK share fishermen, defined as fishermen not employed under a contract of service who are masters or crew-members of a British fishing boat manned by more than one person and who get all or part of their pay by sharing the profits or gross earnings of the fishing boat, are classed as self-employed.¹⁰² Share fishermen can avail of a voluntary tax budgeting scheme to assist with budgeting for Income Tax and National Insurance contributions.¹⁰³ Under this scheme, the settling agent (payer) deducts a minimum of 20% each time a fisherman is paid, which is placed in a dedicated, interest bearing bank account in the fisherman's name (the fishing account). HMRC will then take money from the account for income tax and national insurance contributions twice a year once a Direct Debit mandate has been filled out. The scheme also enables share fishermen to claim an allowance for sea kit expenses of up to £700 on items such as protective clothing, oilskins, boots, gloves, stones and bedding.

3.7 VAT Zero-rating for Supply of Ships

In a number of EU countries VAT relief is also available for certain activities such as purchase of specified vessels. This is relevant where purchasers are not VAT registered. There are, however, differences within the EU in what types of vessels are eligible.

In the UK the sale, import, acquisition or charter (including hire and lease) of qualifying ships is zero-rated for VAT purposes in the UK, where a qualifying ship is defined as any ship of a gross tonnage of not less than 15 tonnes and which is neither designed nor adapted for use for recreation or pleasure.¹⁰⁴ Certain repair, maintenance and modifications of qualifying ships are also zero-rated for VAT purposes. Zero-rating also applies for certain parts and equipment for qualifying ships, such as anchors, cranes, fishing nets and equipment etc. Handling services for qualifying ships are zero-rated if they are performed in a port or outside the UK. Certain services provided by ship managers and port agents are also zero-rated.

3.8 Summary of Marine Tax Measures in Other Countries

As part of our review we examined marine tax measures in a number of other countries and in particular in the UK, Netherlands, Denmark, Greece, France, Norway, Malta, Italy, Cyprus, Germany and Singapore. One of the noteworthy features of the international review is the presence of a tonnage tax and also seafarer tax deductions as well as capital allowances in all of these countries. While there are similarities in the taxation treatment of the marine sector to that in Ireland, in some countries aspects of their tax system are more supportive of the development of aspects of the sector.

¹⁰² HMRC, Share fishermen: Income Tax and National Insurance contributions, <https://www.gov.uk/share-fisherman-income-tax-and-national-insurance-contributions>

¹⁰³ HMRC, Share fishermen: tax budgeting scheme, <https://www.gov.uk/share-fisherman-tax-budgeting-scheme>

¹⁰⁴ HMRC, VAT Notice 744C: ships, aircraft and associated services, <https://www.gov.uk/government/publications/vat-notice-744c-ships-aircraft-and-associated-services/vat-notice-744c-ships-aircraft-and-associated-services>

Tonnage Tax

A tonnage tax is in place in many other countries including the UK, Netherlands, Denmark, France, Norway, Germany and Singapore. Many of these schemes are similar to the Irish tonnage tax and have replicated features of the scheme introduced in the Netherlands. In a number of cases certain aspects of the scheme may be more attractive in terms of the range of activities covered but the key features of the Irish tonnage tax are competitive. A number of other countries also have a different form of tonnage tax and noteworthy are the schemes in Greece, Malta and Cyprus. For certain forms of shipping activities the schemes in these latter countries are attractive in that income from the shipping companies are not liable to pay corporate tax but only have to pay the tonnage tax.

Seafarers' Tax Allowances

A seafarer tax allowance is in place in the UK, Netherlands, Denmark, Greece, France, Norway, Italy, Cyprus, Germany, Malta and Singapore. In many of these countries a differential tax rate applies to eligible employees under certain conditions rather than the potentially more limited Irish tax allowance. Interestingly in two of the countries reviewed qualifying seafarers appear to be exempt from tax, namely in Cyprus and in Singapore, the latter where employment takes place substantially outside the countries. Another interesting difference is in the UK where it would appear that eligible fishermen who meet the criteria and working on fishing vessels, can qualify. This is unlike the position in Ireland where fishing vessels are explicitly excluded from this relief. However, we understand that many share fishermen in the UK might not meet the criteria for qualification but there is no exclusion of fishing vessels as applies in the Irish legislation. We also understand that the UK seafarers' earnings deduction was not submitted for state aid approval as it was not considered a state aid.

Other Marine Related Tax Measures

Our international review has also documented specific tax incentives which are either targeted on the marine sector or which are available to this sector.

These include:

- Fuel Tax Exemption
- Accelerated Depreciation/Capital Allowances
- Incentives for Ship Leasing
- Voluntary Tax Budgeting Scheme for Share Fishermen
- VAT Zero-Rating for Ships

4 Review of Existing Marine Tax Measures

4.1 Introduction

In this section, we examine the nature of the existing tax measures which apply specifically to the marine sector in Ireland. We provide a description of the measures and consider the specific definitions of qualifying activities, undertakings and individuals for each of the measures.

4.2 Tonnage Tax

The Irish tonnage tax regime is made provision for in the Taxes Consolidation Act 1997 Part 24A, Sections 697(A) to 697(Q) and Schedule 18B. This provides an alternative way for qualifying shipping companies to calculate their shipping profits for tax purposes, based on the tonnage of the ships operated by the company. The scheme is elective. Companies must agree to remain in the scheme for a minimum of 10 years.

The scheme works by replacing the “relevant shipping profits” of a company by tonnage tax profits, which are calculated by applying a national daily profit per ship (determined based on the tonnage of the ship and calculated on a sliding scale) to the number of days the ship was operated. A company’s overall tonnage tax profits are then simply the profit per ship aggregated across its ships and corporation tax of 12.5% is applied to this profit. Any income which does not qualify as “relevant shipping income” is subject to corporation tax in the standard way. The tonnage tax is a set tax and is payable even if losses have been incurred in a year.¹⁰⁵

Box 1: Definition of Qualifying Company TCA 1997

A qualifying company is one ***“which is chargeable to Irish corporation tax on any profits which accrue to it. It must also operate qualifying ships (ownership is not a requirement). Finally, and most importantly, the company must carry on the strategic and commercial management of these ships in Ireland.”***

Source: TCA 1997.

The definition of Section 697A of Part 24A TCA 1997 indicates that a company must fulfil both the strategic and commercial management conditions, where strategic management encompasses taking decisions in Ireland on:

- Significant capital expenditure and disposals;
- The award of major contracts;
- Agreement on strategic alliances;
- Extent of reporting of foreign based personnel to personnel in Ireland; and,
- Location of headquarters, decision making of board of directors and operational board.

¹⁰⁵ IMDO & PwC, “Irish Tonnage Tax – Opportunities for the International Shipping Industry”

Commercial management encompasses route planning, taking bookings, managing bunkers, provisioning and victualling requirements of ships, personnel management, training, technical management of ships, maintenances of support facilities and should take place in Ireland.

The definition of a qualifying ship for the purposes of this tonnage tax is presented below.

Box 2: Definition of Qualifying Ship TCA 1997

A “qualifying ship” is defined as ***“a seagoing vessel of an adequate size to engage in reasonable commercial operations and which complies with all the requirements for navigation at sea imposed by the competent authorities of any country or territory.”***

Source: TCA 1997.

A number of vessels are specifically excluded from this definition according to TCA 1997, including fishing and fish factory vessels and harbour, estuary and river ferries, oil tankers and dredgers. Ships must have a gross tonnage of 100 tonnes or more to qualify for the scheme.

Section 697A TCA 1997 also sets out approved sources of income which can be included under “relevant shipping income” which includes income from:

- Transport by sea of cargo and passengers;
- Towage, salvage and marine assistance services (excluding any work which is undertaken in a port or port area);
- Transport services in connection with other activities carried out at sea;
- The provision of services such as cinemas, bars, restaurants, shops etc. (ancillary to the transport of cargo or passengers) where the goods and services are consumed on board the qualifying ship;
- Ship related activities which are a necessary and integral part of the business of operating the company’s qualifying ships;
- The leasing of a qualifying ship where the company retains control over the operation and crewing of the ship;
- Ship management services for qualifying ships; and,
- Distributions from overseas companies which are referable to income which if it had arisen to the company would have been relevant shipping income.

In addition, Section 697A TCA 1997 clarifies that relevant shipping profits are defined as relevant shipping income plus so much of the company’s chargeable gains as are to be excluded from taxation by Section 697N, which deals with relief in relation to chargeable gains arising on the disposal of assets which were used for tonnage tax trade.

4.3 Industrial Buildings Allowance

Capital allowances made available for capital expenditure incurred on the construction or refurbishment of buildings and structures classified as an industrial building (for tax purposes) are outlined in Part 9 of the TCA 1997.¹⁰⁶ This applies to both new and existing buildings. In the context of the marine sector this allowance is applicable to buildings or structures for the purposes of a dock undertaking. The tax life/holding period in the case of a dock undertaking is 25 years. The definition of a dock undertaking for the purposes of this allowance is presented in the box below.

Box 3: Definition of Dock Undertaking TCA 1997

“The meaning of a dock undertaking includes any harbour, wharf, pier, jetty or other works in or at which vessels can ship or unship merchandise or passengers, but does not include a pier or jetty used primarily for recreation”

Source: Notes for Guidance – Taxes Consolidation Act 1997 – Finance Act 2014 Edition - Part 9.

A qualifying “industrial building or structure” to which the Industrial Buildings Allowance currently applies is a building or structure in use for the purpose of any of the following trades:¹⁰⁷

- A trade carried out in a mill;
- A laboratory of which the function is the analysis of minerals in relation to exploring for and or extracting minerals;
- A dock undertaking;
- A trade of market gardening;
- The trade of hotel keeping;
- The intensive production of cattle, sheep, pigs, poultry or eggs in a trade other than farming;
- The trade of operation or management of an airport;
- The trade of operation or management of a registered private nursing home, a convalescent home, a qualifying hospital, a qualifying sports injuries clinic, a qualifying mental health centre, a qualifying specialist palliative care unit; and,
- A trade which consists of maintenance, repair, overhaul or dismantling for the purposes of salvaging or recycling of parts or materials of aircraft used to carry passengers or cargo for hire or reward.

In addition, a company is not entitled to capital allowances in respect of capital expenditure on assets which are used in the company’s tonnage tax trade for the duration of their use in that trade.¹⁰⁸

¹⁰⁶ Taxes Consolidation Act 1997.

¹⁰⁷ Notes for Guidance – Taxes Consolidation Act 1997 – Finance Act 2014 Edition - Part 9.

¹⁰⁸ Notes for Guidance – Taxes Consolidation Act 1997 – Finance Act 2014 Edition – Part 24A, Section 6970.

4.4 Sea Farers Tax Allowances/PRSI

The seafarers' allowance is a tax allowance which applies to seafarers who are "(...) at sea or on a voyage to or from a foreign port for at least 161 days in the tax year",¹⁰⁹ as well as seafarers on vessels which service drilling rigs. The tax allowance is equal to €6,350 and cannot be set against any other income of the individual.

To qualify for the tax allowance, the seafarer must be employed on a seagoing ship, i.e. "(...) a ship other than a fishing vessel that is registered in the shipping register of a European Member State and is used solely for the purpose of carrying passengers or cargo for reward".¹¹⁰ Other conditions to qualify include the following:

- The employment must be performed wholly on board a sea going ship¹¹¹ in the course of an international voyage and the voyage must begin or end in a port¹¹² outside the state;
- The seafarer must not be a Public Sector employee; and,
- The seafarer must not have claimed Split Year Treatment in respect of the income.

The refund of employer's Pay Related Social Insurance (PRSI) social security contributions to employers is applicable in respect of the employment of seafarers on certain ships. To be eligible for the scheme the employer must be the owner or operator of a qualifying ship and employ qualifying seafarers. The following criteria define a qualifying ship:¹¹³

- A seagoing vessel;
- Registered in the register of an EU Member State; and,
- In not less than 100 tonnes gross tonnage and is self-propelled.

A fishing vessel or tugs or dredging vessels which do not carry out their activities at sea are not included in the definition of a seagoing vessel. Qualifying seafarers must be either community/EEA citizens in the case of seafarers working on board vessels providing scheduled passenger services between ports of the community and in other cases all seafarers liable for taxation and or social security contributions in a Member State.¹¹⁴

The objectives of this tax measure include:¹¹⁵

- Maintenance and promotion of employment on behalf of the Irish ship operators;
- Maintain Ireland's competitiveness in the industry including attracting non-Irish ship owners to locate in Ireland;
- Enhance the competitiveness of Ireland's ship operators by levelling the playing field with low labour competitors; and,
- Encouraging the expansion of maritime expertise in Ireland and therefore increasing marine-based activities.

¹⁰⁹ Revenue Commissioners, *Seafarers Allowance*, <http://www.revenue.ie/en/tax/it/crdits/seafarers-allowance.html>

¹¹⁰ Ibid.

¹¹¹ A seagoing ship means a ship other than a fishing vessel that is registered in the shipping register

¹¹² A rig or platform situated in any maritime area is regarded as a port including rigs within the Irish continental shelf.

¹¹³ European Commission State Aid N 311/2005-Ireland.

¹¹⁴ European Commission State Aid N 311/2005-Ireland.

¹¹⁵ European Commission State Aid N 311/2005-Ireland and IMDO.

4.5 VAT/Excise Rebates

Fishermen can, in some circumstances, claim refunds on VAT under “Repayments to Unregistered Persons”.¹¹⁶ Repayment of VAT can be claimed by unregistered fishermen on the purchase, intra-Community acquisition, importation, hire, maintenance and repair of sea-fishing vessels and specified fishing equipment, provided that the vessel/vessel for which the equipment is intended has gross tonnage of more than 15 tonnes. For vessels with gross tonnage under 15 tonnes to qualify, the vessel must have been subject of a grant or loan from An Bord Iascaigh Mhara. In the absence of a grant for such vessels, the acquisition of vessels and/or specified equipment will be liable for VAT.

VAT paid by unregistered fishermen on the purchase, intra-Community acquisition or importation of marine diesel can also be reclaimed, while mineral oil tax on such marine diesel can be reclaimed by both VAT-registered and unregistered fishermen.

VAT can also be reclaimed on expenditure on small sea/inland waterway rescue craft with gross tonnage up to 15 tonnes, as well as expenditure on ancillary equipment and special boat buildings used exclusively for rescue and assistance or for rescue and assistance training.

4.6 Employment and Investment Incentive and Related Schemes

The existing Employment and Investment Incentive has its roots in the previous Business Expansion Scheme, introduced originally in 1984. As regards changes of relevance to the marine sector, shipping was removed from the BES relief in 1991, as this industry was perceived to be highly asset backed and involving little risk.^{117,118} The schemes were reformed again in 2011 and renamed “Employment and Investment Incentive (EII)”¹¹⁹ and Seed Capital Scheme (SCS). The Seed Capital Scheme was recently reformed and renamed Start-up Relief for Entrepreneurs (SURE). It should be noted that these schemes are not specific to the marine sector but rather applicable across most sectors of the economy (with certain trading activities excluded).

To qualify for the EII, a company located in an assisted area must be a micro, small or medium-sized enterprise whereas a company located in a non-assisted area must be a micro or small enterprise, or a medium-sized enterprise in seed or start-up phase only. In Ireland, non-assisted areas consist of Dublin, Meath, Kildare, Wicklow and Cork (except Cork docklands) with the rest of Ireland considered as assisted areas.

In 2013 the schemes were extended to 2020 and expanded to include the operating and managing of hotels, guest houses and self-catering accommodation for a period of two years. In 2014 the EII (initial 30% tax relief) was removed from the high earner’s restriction for a period of three years up to 31st December 2016.¹²⁰

¹¹⁶ Revenue Commissioners, *Refunds to Unregistered Persons*, <http://www.revenue.ie/en/tax/vat/refunds/repayments-unregistered-persons.html>

¹¹⁷ Department of Finance in consultation with the Department of Enterprise, Trade & Employment and the Office of the Revenue Commissioners, “2006 Review of the Business Expansion Scheme and Seed Capital Scheme”.

¹¹⁸ Note hotels were also removed from the scheme in 1991 for the same reasons.

¹¹⁹ Department of Finance, “Review of the Employment and Investment Incentive and Seed Capital Scheme”, October 2014.

¹²⁰ Department of Finance (2014) Review of the Employment and Investment Incentive and Seed Capital Scheme.

EII

In its current specification, the EII provides tax relief of 30% in respect of investments up to €150,000 (minimum €250) made by private investors in medium-term (minimum of three years) equity capital in Irish SMEs. An additional 11% relief at the end of the holding period is available for investments which are proven to have led to additional jobs or which funded expenditure on R&D. Investors can carry forward unrelieved amounts of investment expenditure up to and including 2020 subject to the normal limit on the amount of investment that can be relieved in one year.

Certain trading activities including “operations in the coal industry and in the steel and ship building sectors” are not eligible for the scheme, which means that companies in the shipbuilding industry do not qualify for EII relief. It should be noted that the exclusion of this trading activity arises directly from the EC Guidelines,¹²¹ which indicate that “Risk capital measures must specifically exclude the provision of aid to enterprises (...) in the shipbuilding, coal and steel industry”.

The investor may not be connected with the company in the capacity of a partner in the company, a controller of the company or have an interest or be entitled to an interest of 30% in the company. A company must comply with the following conditions in order to be a qualifying company:¹²²

- The company must be resident in the State or another EEA State with an establishment in the State carrying out qualifying activities;
- The company must be a micro-, small- or medium-sized enterprise as defined by the European Commission;
- The company must not be regarded as a firm in difficulty for the purposes of the Community Guidelines on state aid for Rescuing and Restructuring Firms in Difficulty;
- The company cannot control or be under the control of another company;
- The company shares cannot be listed on a stock exchange. However, a listing on the Enterprise Securities Market of the Irish Stock Exchange shall not disqualify a company;
- A listing on the Enterprise Securities Market of the Irish Stock Exchange and a corresponding market of the stock exchange of one or more Member States of the EU shall not disqualify a company where the Irish listing takes place before or at the same time as the other EU listing; and,
- The company must not intend winding up within three years of receiving EII investment unless for bona fide commercial reasons.

Established companies receive the relief as soon as conditions are complied with and the relief applies within the tax year of which the shares are issued. Tax relief is not given to new companies until relevant trading activities have been carried out for at least four months.

It appears from Revenue Commissioner data analysed by Indecon that there has been no use or negligible use of this important incentive by ports, shipping companies, seafood/aquaculture or fishermen/fishing companies. This highlights the need to clarify that this scheme and the SURE initiative are applicable to the marine sector and to promote the use of these schemes for the sector.

¹²¹ Official Journal of the European Union, Community Guidelines on State Aid to Promote Risk Capital Investments in Small and Medium-sized Enterprises, 2006/C 194/02, pp.2-21, 18.8.2006.

¹²² Department of Finance (2014) Review of the Employment and Investment Incentive and Seed Capital Scheme.

Start-up Relief for Entrepreneurs (SURE)

The SURE scheme supports entrepreneurs by refunding income tax paid in previous years where the refund is used to finance new businesses. Thus the scheme provides an alternative source of finance for SMEs and start-ups. The relief consists of a refund of income tax up to 41% of the capital invested in a new company. Income tax paid in the six years prior to the investment may also be eligible for refund depending on the size of the investment. The maximum investment in any year of assessment is €100,000, the individual must hold shares for a minimum of 3 years and the individual must possess at least 15% of the issued ordinary share capital of the company for 12 months after the issue of shares. SURE replaces a previous tax relief incentive scheme known as the Seed Capital Scheme (SCS).

The following conditions apply to the company, which must:¹²³

- Be a Qualifying New Venture;
- Be incorporated in the State or in another EEA State;
- Be an unquoted company;
- Be tax resident in the State or in another EEA State and carry on business in the State through a branch or agency;
- Carry on relevant trading activities from a fixed place of business in the State;
- Be a micro, small or medium-sized enterprise;
- Have its issued share capital; and,
- Use the amounts invested:
- For the creation **and** maintenance of employment and for the benefits of a qualifying new venture in the carrying out of relevant trading activities; **or**
- In the case of a company that has not commenced to carry on relevant trading activities, on research and development activities.

In addition, the company must not:¹²⁴

- Have any special trading arrangements with the former employer company of the investor, or a company related to that former employer company. Normal business transactions are, however, acceptable, provided these are conducted on an arm's length basis;
- Carry on a trade which is similar to any other trade in respect of which the investor has or has had a controlling interest;
- Be considered as a firm in difficulty for the purposes of the Community Guidelines on State aid for rescuing and restructuring firms in difficulty; and,
- Control or be controlled by any other company, with the exception of controlling a qualifying subsidiary.

Certain trading activities are not considered to be qualifying activities under the scheme. Operations carried on in the coal industry or in the steel and shipbuilding sectors are not allowed under SURE.

¹²³ Revenue Commissioners, *Startup Relief for Entrepreneurs (SURE) – IT15*, <http://www.revenue.ie/en/tax/it/leaflets/it15.html#section9>

¹²⁴ Ibid.

4.7 Summary of Findings

- ❑ The Irish tonnage tax regime provides an alternative way for qualifying shipping companies to calculate their shipping profits for tax purposes, based on the tonnage of the ships operated by the company. The scheme is elective. Companies must agree to remain in the scheme for a minimum of 10 years. Corporation tax of 12.5% is applied to the calculated 'profit'. Any income which does not qualify to be defined as "relevant shipping income" is subject to corporation tax in the standard way. The tonnage tax is a set tax and is payable even if losses have been incurred in a year.
- ❑ Capital allowances made available for capital expenditure incurred on the construction or refurbishment of buildings or structures for the purposes of a dock undertaking. The tax life/holding period in the case of a dock undertaking is 25 years. A company is not entitled to capital allowances in respect of capital expenditure on assets which are used in the company's tonnage tax trade for the duration of their use in that trade.
- ❑ The seafarers' allowance is a tax allowance which applies to seafarers who are at sea or on a voyage to or from a foreign port for at least 161 days in the tax year", as well as seafarers on vessels which service drilling rigs. The tax allowance is equal to €6,350 and cannot be set against any other income of the individual. Seafarers on fishing vessels are explicitly excluded from the allowance.
- ❑ The refund of employer's PRSI social security contributions to employers is applicable in respect of the employment of seafarers on certain ships. The employer must be the owner or operator of a qualifying ship and employ qualifying seafarers.
- ❑ Fishermen can claim refunds on VAT under "Repayments to Unregistered Persons In the absence of a grant for such vessels, the acquisition of vessels and/or specified equipment will be liable for VAT. VAT paid by unregistered fishermen on the purchase, intra-Community acquisition or importation of marine diesel can also be reclaimed, while mineral oil tax on such marine diesel can be reclaimed by both VAT-registered and unregistered fishermen. VAT can also be reclaimed on expenditure on small sea/inland waterway rescue craft with gross tonnage up to 15 tonnes, as well as expenditure on ancillary equipment and special boat buildings used exclusively for rescue and assistance or for rescue and assistance training.
- ❑ The Employment and Investment Incentive (EII) provides tax relief of 30% in respect of investments up to €150,000 (minimum €250) made by private investors in medium-term (minimum of 3 years) equity capital in Irish SMEs. An additional 11% relief at the end of the holding period is available for investments which are proven to have led to additional jobs or which funded expenditure on R&D. Established companies receive the relief as soon as conditions are complied with and the relief applies within the tax year of which the shares are issued. Tax relief is not given to new companies until relevant trading activities have been carried out for at least four months.
- ❑ The SURE scheme supports entrepreneurs by refunding income tax paid in previous years where the refund is used to finance new businesses. The relief consists of a refund of income tax up to 41% of the capital invested in a new company. Income tax paid in the six years prior to the investment may also be eligible for refund depending on the size of the investment. The maximum investment in any year of assessment is €100,000, the individual must hold shares for a minimum of three years and the individual must possess at least 15% of the issued ordinary share capital of the company for 12 months after the issue of shares.
- ❑ To qualify for the EII, a company located in an assisted area must be a micro-, small-, or medium-sized enterprise whereas a company located in a non-assisted area must be a micro or small enterprise, or a medium-sized enterprise in seed or start-up phase only.

- It appears from Revenue Commissioner data analysed by Indecon that there has been no use or negligible use of this important incentive by ports, shipping companies, seafood/aquaculture or fishermen/fishing companies.

5 Tax Contribution of Marine Sector

5.1 Introduction

It is useful to examine the tax contribution of the marine sector. An analysis of new data provided to Indecon by the Revenue Commissioners has identified the tax contribution of ports, shipping and fishing sectors. The figures presented in Table 5.1 show that the three subsectors contributed €48.1 million in tax to the Irish economy. This data excludes taxation from other subsectors including from marine tourism.

Table 5.1: Annual Tax Revenue from Tonnage Tax, VAT, Corporate Tax, Income Tax and Capital Gains Tax by Industry 2011-2014

	Ports - € million	Shipping Companies - € million	Seafood/ Aquaculture/ Fishermen - € million	Total - € million
2011	24.2	8.8	16.5	49.5
2012	22	9.5	16.7	48.2
2013	21.6	9.6	16.9	48.1

Source: Indecon analysis of data from Revenue Commissioners

5.2 Tax Contributions of Port Sector

An analysis of the tax contribution of ports amounted to €21.6 million. Over 50% of the contribution is in the form of income taxes. Other sources include corporate tax, VAT and some capital gains tax.

Table 5.2: Annual Tax Revenue from Ports 2010-2014

	VAT	Corporate Tax - € million	Income Tax - € million	Capital Gains Tax - € million	Total - € million
2011	5	5.6	13.6	Neg	24.2
2012	3.5	4.5	13.9	0.1	22
2013	3.3	4.8	13.4	0.1	21.6

Source: Indecon analysis of data from Revenue Commissioners

5.3 Tax Contribution of Shipping Sector

The breakdown of the tax contribution of the shipping companies within the marine sector is shown below. Total tax paid by the industry was €9.6 million.

Table 5.3: Annual Tax Revenue from Shipping Companies - € Million

	Tonnage Tax - € million	VAT - € million	Corporate Tax - € million	Income Tax - € million	Capital Gains Tax - € million	Total - € million
2011	0.5	6.6	0.6	1.1	0	8.8
2012	0.6	7	0.7	1.2	0	9.5
2013	0.6	7	0.5	1.5	0	9.6

Source: Indecon analysis of data from Revenue Commissioners

5.4 Tax Contribution of Fishing and Seafood Sector

Income tax paid by the Seafood/Aquaculture/Fishermen industry within the marine sector amounted to €9.7 million. Total tax paid by those subsectors amounted to €16.9 million in 2013.

Table 5.4: Annual Tax Revenue from Seafood/Aquaculture/Fishermen					
	VAT - € million	Corporate Tax - € million	Income Tax - € million	Capital Gains Tax - € million	Total - € million
2011	0.7	4.5	11.3	Neg	16.5
2012	0.8	4.3	11.4	0.2	16.7
2013	0.9	4.2	9.7	2.1	16.9

Source: Indecon analysis of data from Revenue Commissioners

5.5 Summary of Findings

The analysis in this section has shown that the direct Exchequer tax contribution of the three subsectors which are the focus of this review amounted to over €48 million per annum. This does not include tax from any multiplier or indirect impacts and excludes tax from important subsectors such as marine taxation.

6 Costs and Benefits of Existing Marine Tax Measures

6.1 Introduction

In this section, we consider the costs and benefits of existing tax measures in the marine sector. It is important to consider the cost to the Exchequer of existing tax measures in the context of the benefits provided by the measure to ascertain whether taxation measures are appropriately targeted. The costs of tax measures are generally determined by reference to the tax foregone as a result of the measure. Benefits of taxation measures can encompass a number of outcomes including increasing employment, increasing tax revenue or assisting with competitiveness. The aim of this section is thus to determine the costs and benefits of existing measures to determine whether the costs outweigh the benefits. Indecon has undertaken a cost-benefit analysis for some of the taxation measures but in some cases, insufficient data was available on either the costs or benefits of the measure. In such cases, Indecon has evaluated the measures using available data and analysis based on primary research but has not completed a formal cost-benefit analysis.

The analysis of costs has been greatly assisted by data provided by the Revenue Commissioners but there are some challenges on the availability of data for certain measures.

6.2 Overview of Key Assumptions used

Table 6.1 sets out the key assumptions used to inform the cost-benefit analysis in this section. These assumptions reflect the most recent guidance on CBA appraisal and assumptions based on Indecon analysis reflect the most recent data available.

It should be noted that the tax expenditure and uptake of marine taxation measures is low which restricts the availability of detailed data required to undertake a rigorous cost-benefit analysis. As such, we calculate an indicative CBA based on the data available and also consider benefits identified through primary research – in some cases it is not possible to quantify the benefit for inclusion in the CBA but it is nonetheless important to consider these benefits.

Table 6.1: Key Assumptions Used in Cost-benefit analysis	
Shadow Price of Public Funds (SPPF)*	130%
Administration Costs	1%
Discount rate	5%
Deadweight	10%-35%
Opportunity Cost of Labour	80%
Tax Rate - Wages	35%
VAT Rate	23%
Construction phase - direct labour % of overall construction spend	50%
Multiplier - Indirect Wages (Construction Sector, Type I)	1.59
Source: Indecon	
*DPER	

Time Period

We evaluate the various measures over a time period of one year only. We acknowledge that the benefits associated with the marine taxation measures under investigation may persist for longer than one year but we employ a conservative approach by investigating the costs and benefits for a single year only.

Discount Rate

As per the guidance from the DPER, we consider a discount rate of 5% but note that the choice of discount rate is less important in the context of a one-year evaluation period as selected.

Shadow Cost of Public Funds

An assumed shadow cost of public funds is used to adjust the costs of taxation measures to take account of possible impacts of distortionary taxation on the wider economy. We use a factor of 130% to take account of such possible impacts, in line with DPER recommendations. It must also be noted that this parameter should be applied to additional tax revenues that are generated as a result of the relief.

Indecon notes that there are significant differences in opinion between economists on the merit of using a 130% shadow price for public funds, with some proposing that 100% should be used instead and we also test the impact of assuming 100% in our scenarios.

Opportunity Cost of Labour

DPER guidance indicates that a value between 80-100% should be used to take account of the opportunity cost of labour. We use a value of 80% opportunity cost of labour in most cases.

Multiplier Estimates

Indecon's model of the Irish economy, based on CSO input-output tables for 2011 (most recent time period available), provides Type I output multipliers by sector which account for indirect benefits of increased output. We use the multiplier for the construction sector to evaluate the multiplier impacts of increased investment.

Income Tax Rate

An average marginal income tax rate of 35% is assumed unless we have specific Revenue data.

VAT Rate

We also assume a VAT rate of 23%.

Relief Deadweight

Deadweight measures the extent to which the behaviour change would have occurred in the absence of policy intervention. We assume deadweight/displacement impacts of 10% to 35%.

6.3 Overall Costs

Indecon estimates the total cost of all measures in the marine sector to be €2.12 million. This rises to €2.78 million when assuming a 130% shadow price of public funds and administration costs of 1%.

Table 6.2: Estimate of Total Costs Across all Measures	
	€ million
Tax Foregone (€m)	2.12
Shadow Price of Public Funds Adj (€m)	0.64
Administration costs (€m)	0.021
Total Economic Costs (€m)	2.78
Source: Indecon analysis	

6.4 Tonnage Tax

6.4.1 Costs

The Revenue Commissioners indicated to Indecon that it is not possible to assess the tax cost of the tonnage tax as the tax return filled out by companies utilising the tonnage tax regime does not require information on the corporate tax that would normally have been payable if the tonnage tax regime did not apply.

2006 Review of Tax Schemes – Volume III: Internal Review of Certain Tax Schemes

The Department of Finance completed an internal review of certain tax reliefs as an input to Budget 2006 which included an initial evaluation of the tonnage tax regime. This review indicated that it was not possible to estimate the cost of the tonnage tax regime as it would be too onerous for companies to fill out two separate tax returns, one setting out profits for tax purposes under tonnage tax and the other setting out profits for tax purposes under standard taxation.

In this review, the Department of Finance indicated *“Having regard to the decision of the main Irish shipping companies to retain their base of operations in Ireland and the increase in the registered Irish tonnage, it can be argued, albeit anecdotally, that tonnage tax is not a cost to the Exchequer.”*

The Department additionally noted *“Having regard to the reasons for the introduction of tonnage tax, a measurement of the health and growth in the Irish shipping fleet using the position obtaining at the time of the introduction of tonnage tax as a base line would be a better method of evaluating its cost/benefit to the Exchequer.”*

The counterfactual used in this review indicated that there would likely not be much of shipping industry if the tonnage tax scheme had not been introduced. In addition, the review concluded that there was little or no deadweight arising from the tonnage tax scheme.

The Department of Finance consulted with the IMDO as part of the review; the IMDO reported that the introduction of the tonnage tax scheme had led to a 68% increase in Irish registered tonnage and an increase in employment of 17% between 2001 and December 2003.

The list of recommendations in this review included a possible requirement for participating companies to provide information enabling policy makers to determine the costs and benefits associated with the scheme with reference to the state of the industry prior to the introduction of the tonnage tax scheme. Examples of information to be used to assess the costs and benefits included the number and tonnage of ships, employment and additional economic activity in the sector on-board and ashore.

Costs

As indicated above, the 2006 Internal Review of Certain Tax Schemes conducted by the Department of Finance recommends that the costs and benefits of the tonnage tax regime should be assessed with reference to measures such as the number of participating ships, tonnage of such ships, employment and additional economic activity. The review also recommends that the base line should be the position immediately prior to the introduction of the tonnage tax regime. It is also instructive to consider any changes which have occurred since the 2006 review was completed. In 2005, 18 companies were participating in the tonnage tax scheme and a further 8 companies were under consideration for inclusion in the scheme. The scheme comprised 44 participating ships with 10 more ships under consideration.

Table 6.3 outlines the number of companies participating in the tonnage tax regime over the period 2009 to 2013. In 2009, 32 companies were participating in the scheme and this rose to 42 participating companies in 2013. This represents a significant increase on the 18 participating companies in 2005.

Table 6.3: Number of Shipping Companies Participating in Tonnage Tax Regime 2009-2013	
Year	Number of shipping companies
2009	32
2010	37
2011	38
2012	39
2013	42

Source: Revenue Commissioners

Indecon has assumed a tax cost of €0.2m associated with the tonnage tax regime for the purposes of an indicative CBA calculation. Taking account of the shadow price of public funds of 130% and administration costs of 1%, we assume an overall cost of the tonnage tax regime of €0.26 million.

It should however be noted that there is a possibility that the tonnage tax regime may have increased Exchequer tax revenue rather than representing a cost. This is the view of the shipping and port companies surveyed, with over half of respondents agreeing that the tonnage tax regime results in increased Irish Exchequer tax revenue.

Table 6.4: Views of Shipping/Port Companies on Impact of Tonnage Tax Regime to Increase Irish Exchequer Tax Revenue - % of Respondents					
Strongly Agree	Agree	Disagree	Strongly disagree	Don't Know/Neither Agree nor Disagree	Total
38%	25%	13%	0%	25%	100%

Source: Indecon Confidential Information Request to Shipping/Port Companies on Aspects of Marine Taxation

6.4.2 Benefits

We consider the perceived benefits associated with the tonnage tax regime based on primary research conducted with shipping/port companies. 76% of respondents indicated agreement or strong agreement that the tonnage tax regime attracts international shipping companies to locate in Ireland who would not in the absence of the scheme or assists the return of existing companies.

Table 6.5: Views of Shipping/Port Companies on Impact of Tonnage Tax Regime to Attract International Shipping Companies to Ireland who would not Locate in Ireland in the Absence of Tonnage Tax Regime - % of Respondents					
Strongly Agree	Agree	Disagree	Strongly disagree	Don't Know/Neither Agree nor Disagree	Total
38%	38%	13%	0%	13%	100%
Source: Indecon Confidential Information Request to Shipping/Port Companies on Aspects of Marine Taxation					

Table 6.6 reveals that 76% of shipping/port companies agree or strongly agree that the tonnage tax regime increases employment in Ireland in the marine sector. The IMDO indicates that total shore-based employment for companies in the Irish tonnage tax regime has increased from 439 in 2011 to 470 in 2014, of which 288 are of Irish nationality and 178 have EU nationality.

Table 6.6: Views of Shipping/Port Companies on Impact of Tonnage Tax Regime to Increase Employment in Ireland in Shipping/Ports and Related Sectors - % of Respondents					
Strongly Agree	Agree	Disagree	Strongly disagree	Don't Know/Neither Agree nor Disagree	Total
38%	38%	13%	0%	13%	100%
Source: Indecon Confidential Information Request to Shipping/Port Companies on Aspects of Marine Taxation					

The information obtained from primary research feeds into our estimate of the overall benefits of the tonnage tax regime for the purposes of a CBA calculation. It is likely that fewer companies would choose to locate in Ireland in the absence of the tonnage tax regime which would have a consequent impact on employment. The benefits of the tonnage tax regime are therefore the increased income tax and corporate tax obtained from shipping companies and increased income tax paid by seafarers.

Table 6.7 sets out the estimate of the benefits associated with the tonnage tax regime. These benefits consist of additional tax revenues considered to be arising from the taxation measure. The IMDO estimated that the introduction of the tonnage tax led to an increase of 68% in Irish registered tonnage from 2001 to December 2003, with the Department of Finance indicating an estimate of between 48%-68%. Indecon uses the lower estimate as while it is likely that there have been further increases in Irish registered tonnage which are due to the tonnage tax, we believe that 48% is likely to represent a conservative estimate. The Revenue Commissioners has indicated that there are 42 companies currently availing of the tonnage tax regime and we assume that 48% of these companies would not be registered for tax purposes in Ireland in the absence of the scheme. We estimate that the tonnage tax results in an additional €0.37 million from such companies.

We estimate the additional corporate tax revenue which would be received from these companies to be €0.31 million.

The IMDO also estimated that the tonnage tax resulted in an increase in employment of 17%. Using information on the income tax paid by seafarers, we estimate that the tonnage tax has resulted in an additional €1.06 million in income tax from seafarers (adjusted for 80% opportunity cost of labour), leading to an overall benefit of €1.74 million. It should be noted that the benefits have been adjusted to take account of the shadow cost of public funds. Accounting for 35% deadweight gives an estimated benefit of €1.13 million per annum.

Table 6.7: Estimate of Benefits of Tonnage Tax Regime 2013	
Tonnage Tax Revenue	
Number of companies availing of tonnage tax regime	42
Annual tonnage tax revenues received (€m)	0.6
Tonnage tax revenue per company (€m)	0.01
Increase in Irish registered tonnage due to tonnage tax regime	48%
Number of companies which would not register in Ireland in the absence of the tonnage tax regime	20
Additional tonnage tax revenue due to scheme (€m)	0.37
Corporate Tax Revenue	
Estimated additional corporate tax revenue (€m)	0.31
Income Tax Benefits from Increased Employment in Sector	
Increase in employment due to tonnage tax regime	17%
Estimated additional employment	662
Estimated additional income tax (€m)	4.07
Adjust for opportunity cost of labour (€m)	0.81
Increase in income tax due to scheme adjusted for shadow price of public funds (€m)	1.06
Total Benefits (€m)	1.74
Total Benefits adjusted for deadweight (€m)	1.13
Source: Indecon analysis	

Having estimated the costs and benefits of the tonnage tax regime, it is possible to estimate an indicative cost-benefit analysis. Table 6.8 indicates that the BCR associated with the tonnage tax regime is estimated at 4.32.

Table 6.8: Summary of CBA results for Tonnage Tax 2013	
Total Benefits (€M)	1.13
Total Costs (€M)	0.26
Total Net Benefits (€M)	0.87
Benefit-Cost Ratio	4.32
Source: Indecon analysis	

The overall costs and benefits of the tonnage tax regime are summarised in Table 6.9. Accounting for the shadow price of public funds, the opportunity cost of labour and deadweight, we estimate the net benefit of the tonnage tax regime to be €0.87 million.

Table 6.9: Costs and Benefits - Tonnage Tax	
Annual Costs of Measure (€m)	0.20
<i>Estimated additional tonnage tax revenue (€m)</i>	<i>0.29</i>
<i>Estimated additional corporate tax revenue (€m)</i>	<i>0.24</i>
<i>Estimated additional income tax revenue from increased employment (€m)</i>	<i>4.07</i>
Quantified Benefits of Measure (€m) (income tax benefit arising from the scheme)	4.59
Net Benefit (€m)	4.39
Net Benefit after adjustments for 130% shadow price of public funds (€m)	5.71
Net Benefit assuming only 20% of income tax received (to take account of opportunity cost of labour) (€m)	1.14
Net Benefit with adjustments for shadow price of public funds and opportunity cost of labour (€m)	1.48
Net Benefit with adjustments for shadow price of public funds, opportunity cost of labour and 35% deadweight (€m)	0.87
Source: Indecon analysis	

6.5 Special Tax Allowances / PRSI for Merchant Seafarers

6.5.1 Costs

Costs of Seafarer Tax Allowances

Table 6.10 sets out the estimates of tax foregone due to the seafarers' tax allowance, as well as the number of seafarers claiming allowances. These estimates have been provided to Indecon by the Revenue Commissioners. The number of seafarers claiming allowances is low, at 190 seafarers in 2013 (most recently available data) and the associated tax foregone is also estimated to be low, at €0.4 million.

Table 6.10: Marine Taxation Measures - Estimates of Tax Cost from Revenue Commissioners - Seafarers' Allowance		
Year	Revenue estimates of tax foregone - € Million	Number of seafarers claiming allowances
2009	0.2	150
2010	0.3	160
2011	0.4	190
2012	0.4	200
2013	0.4	190
2014	N/A	N/A
Source: Revenue Commissioners		

Accounting for the shadow price of public funds as well as administration costs (estimated at 1%), we estimate the total economic cost associated with the Merchant Seafarer Tax Allowance to be €0.52 million in 2012, as demonstrated in Table 6.11.

Table 6.11: Estimate of Total Costs - Merchant Seafarer Tax Allowance 2012	
	€ million
Tax Foregone	0.40
Shadow Price of Public Funds Adj	0.12
Administration costs	0.004
Total Economic Costs	0.52
Source: Indecon analysis	

Costs of Seafarers' PRSI Refund Scheme

Table 6.12 presents data from the Revenue Commissioners on the amounts claimed under the seafarers' PRSI refund scheme. All of the amount claimed can be considered to be tax foregone as this is simply a refund on tax already paid. The tax foregone due to this scheme in 2013 was €0.4 million.

Table 6.12: Marine Taxation Measures - Estimates of Tax Cost from Revenue Commissioners - Seafarers' PRSI Refund Scheme	
Year	Revenue estimates of amount claimed - € Million
2007	0.5
2008	0.6
2009	0.6
2010	0.6
2011	0.6
2012	0.7
2013	0.4
Source: Revenue Commissioners	

Table 6.13 outlines the total economic costs associated with the PRSI refund scheme in 2013. Including an adjustment for the shadow price of public funds and administration costs, the total economic cost of the scheme is estimated to be €0.56 million.

Table 6.13: Estimate of Total Costs - PRSI Refund Scheme 2013	
	€ million
Tax Foregone	0.42
Shadow Price of Public Funds Adj	0.13
Administration costs	0.004
Total Economic Costs	0.56
Source: Indecon analysis	

The combined costs of the seafarer tax allowance and PRSI refund scheme are estimated to be €1.08 million, taking account of the shadow price of public funds and administration costs.

Table 6.14: Estimate of Total Costs - Seafarer Tax Allowance 2012 and PRSI Refund 2013	
	€ million
Tax Foregone	0.82
Shadow Price of Public Funds Adj	0.25
Administration costs	0.008
Total Economic Costs	1.08
Source: Indecon analysis	

6.5.2 Benefits

Indecon's primary research asked for the views of shipping/port companies on the impact of the special tax allowance and PRSI for merchant seafarers. The main benefits include increased employment and assistance to competitiveness of the shipping sector.

Table 6.15: Views of Shipping/Port Companies on Impact of Special Tax Allowance/PRSI for Merchant Seafarers in Encouraging Increased Employment of the Irish Labour Force- % of Respondents						
Strongly Agree	Agree	Disagree	Strongly disagree	Don't Know/Neither Agree nor Disagree	Total	Number of respondents
25%	25%	13%	25%	13%	100%	8
Source: Indecon Confidential Information Request to Shipping/Port Companies on Aspects of Marine Taxation						

Table 6.16 presents the views of shipping/port companies on whether the allowance and refund assist in competitiveness of the shipping sector. 38% of respondents indicated that they agreed that the measures assisted with competitiveness of the sector, while an equal percentage disagreed.

Table 6.16: Views of Shipping/Port Companies on Impact of Special Tax Allowance/PRSI for Merchant Seafarers in Assisting Competitiveness of the Shipping Sector- % of Respondents						
Strongly Agree	Agree	Disagree	Strongly disagree	Don't Know/Neither Agree nor Disagree	Total	Number of respondents
13%	25%	25%	13%	25%	100 %	8
Source: Indecon Confidential Information Request to Shipping/Port Companies on Aspects of Marine Taxation						

25% of respondents indicated their agreement that the measures resulted in increased Exchequer income tax, while 38% disagreed (see table below).

Table 6.17: Views of Shipping/Port Companies on Impact of Special Tax Allowance/PRSI for Merchant Seafarers to Increase Exchequer Income Tax- % of Respondents						
Strongly Agree	Agree	Disagree	Strongly disagree	Don't Know/Neither Agree nor Disagree	Total	Number of respondents
0%	25%	13%	25%	38%	100 %	7

Source: Indecon Confidential Information Request to Shipping/Port Companies on Aspects of Marine Taxation

Benefits of Seafarers' Tax Allowance

We assume that fewer seafarers would choose to locate in Ireland for tax purposes in the absence of the Seafarers' Tax Allowance. We believe that this is a reasonable assumption, given that the allowance only applies for seafarers who have been on voyages outside of Ireland for over 161 days in any given year. To be tax-resident in Ireland, an individual must have been resident in Ireland for 183 days in any given calendar year. Merchant seafarers eligible for the allowance spend a significant number of days travelling outside of Ireland (at least 161 days) and it is thus likely that there are fewer barriers preventing these seafarers from locating in another country for tax purposes in the absence of the scheme. We assume that 10% of seafarers would pay tax in Ireland in the absence of the scheme. The benefits of the scheme are thus the additional income tax paid by seafarers who would not be locating in Ireland in the absence of the scheme. Indecon estimates the additional income tax associated with the scheme to be €1.44 million.

Table 6.18: Summary of Economic Benefits of Seafarer Tax Allowance 2012	
Number of seafarers availing of scheme	200
Income tax paid by seafarers availing of scheme (€m)	1.23
Income tax paid per seafarer (€m)	0.00615
Number of seafarers who would pay tax in Ireland in absence of scheme	20
Income tax benefit arising from scheme (€m)	1.11
Total Benefits adjusted for shadow price of public funds (€m)	1.44

Source: Indecon analysis

Benefits of PRSI Refund Scheme

The review of submissions received indicated a belief that the higher cost of employment in the absence of the PRSI refund scheme would lead to a reduction in employment opportunities for Irish seafarers. To undertake a cost-benefit analysis for this scheme, we therefore assume that there would be fewer Irish seafarers in the absence of the scheme. We assume that 10% of seafarers would pay tax in Ireland in the absence of the PRSI Refund Scheme. Table 6.19 presents Indecon's estimate of the benefits associated with the PRSI refund scheme, which is estimated to be additional income tax revenue of €0.83 million.

Table 6.19: Summary of Benefits of PRSI Refund Scheme 2013

Number of seafarers availing of scheme	115
Income tax paid per seafarer (€m)*	0.00615
Income tax paid by seafarers availing of scheme (€m)	0.71
Number of seafarers who would pay tax in Ireland in absence of scheme	12
Income tax benefit arising from scheme (€m)	0.64
Total Benefits adjusted for shadow price of public funds and before accounting for opportunity cost of labour (€m)	0.83
Source: Indecon analysis	
*We assume that the seafarers apply for the seafarers' tax allowance and thus that the average income tax paid per seafarer is equivalent to that of seafarers qualifying for the allowance.	

We combine the benefits from the seafarer tax allowance and the PRSI refund scheme to estimate total benefits of €2.27 million arising from the two schemes. However, this assumes there are two different groups of individuals and this may not be correct – in which case we would be overestimating the benefits of these measures. Therefore in our CBA we only include income tax benefits for the seafarer tax allowance group but include the cost of both.

Table 6.20: Summary of Economic Benefits of Seafarer Tax Allowance and PRSI Refund Scheme

Number of seafarers availing of scheme	315
Income tax paid per seafarer (€m)	0.00615
Income tax paid by seafarers availing of scheme (€m)	1.94
Number of seafarers who would pay tax in Ireland in absence of scheme	32
Income tax benefit arising from scheme (€m)	1.74
Total Benefits adjusted for shadow price of public funds (€m)	2.27
Source: Indecon analysis	

6.5.3 Cost-benefit analysis

We consider the costs and benefits of the combined seafarer tax allowance and the PRSI refund scheme. The net benefit of the schemes when accounting for the shadow price of public funds is estimated to be €0.36 million.

Table 6.21: Costs and Benefits - Seafarer Tax Allowance and PRSI Refund Scheme

Annual Costs of Measure (€m)	0.82
Quantified Benefits of Measure (€m) (income tax benefit arising from the scheme)	1.44
Non-Quantified Benefits	Assists competitiveness of shipping sector
Net Benefit (€m)	0.36
Source: Indecon analysis	

The measure shows a small quantified net benefit. However, this assumes that those who would not pay tax in Ireland would remain as merchant seafarers rather than be actively involved in other economic activity in Ireland. If alternative assumptions were made, the scheme would have a small net cost.

6.6 VAT Rebate Scheme on Fishing Vessel and Equipment

6.6.1 Costs

The Revenue Commissioners have indicated that neither the tax cost nor the administration cost associated with the VAT rebate are considered to be material due to the size of claims. Table 6.22 outlines the number of fishing vessels that have reclaimed VAT on fishing vessels and equipment under the scheme. We observe that the number of fishing vessels making use of this rebate is low, with six vessels reclaiming VAT in 2013 and 13 vessels reclaiming VAT in 2014.

Year	Number of fishing vessels that have reclaimed VAT under VAT scheme
2009	10
2010	6
2011	10
2012	8
2013	6
2014	13

Source: Revenue Commissioners

For the purposes of our analysis, Indecon assumes that the cost to the Exchequer of the VAT rebate scheme is negligible. This is also the judgement of the Revenue Commissioners.

6.6.2 Benefits

In this section we consider the benefits associated with the VAT rebate scheme on specified fishing vessels and equipment and the marine diesel VAT rebate scheme. Over half of respondents to Indecon's survey of fishermen and sea food firms agree or strongly agree that the VAT rebate scheme on vessels and equipment attracts fishing vessel owners to locate in Ireland who would not have chosen to locate in Ireland in the absence of the scheme.

Strongly Agree	Agree	Disagree	Strongly disagree	Don't Know / Neither Agree nor Disagree	Total
32%	26%	12%	6%	24%	100%

Source: Indecon Confidential Information Request to Fishermen on Aspects of Marine Taxation

87% of respondents indicate their view that the marine diesel VAT rebate scheme encourages purchase of marine diesel in Ireland, as demonstrated in Table 6.24.

Table 6.24: Views of Fishermen and Sea Food Firms on Impact of Marine Diesel VAT Rebate to Encourage Purchase of Marine Diesel in Ireland- % of Respondents					
Strongly Agree	Agree	Disagree	Strongly disagree	Don't Know / Neither Agree nor Disagree	Total
58%	29%	3%	1%	9%	100%

Source: Indecon Confidential Information Request to Fishermen on Aspects of Marine Taxation

Table 6.25 demonstrates that approximately 80% of respondents agree or strongly agree that the VAT rebate scheme for specified fishing vessels and equipment and the marine diesel VAT rebate scheme result in increased employment in Ireland in the fishing sector and in fish processing.

Table 6.25: Views of Fishermen and Sea Food Firms on Impact of VAT Rebate Schemes and Marine Diesel VAT to Increase Employment in Ireland in Fishing Sector and in Fish Processing - % of Respondents						
	Strongly Agree	Agree	Disagree	Strongly disagree	Don't Know / Neither Agree nor Disagree	Total
VAT Rebate Scheme on Specified Sea Fishing Vessels and Equipment	45%	33%	10%	2%	10%	100%
Marine Diesel VAT Rebate Scheme	54%	29%	8%	2%	8%	100%

Source: Indecon Confidential Information Request to Fishermen on Aspects of Marine Taxation

Over 80% of respondents indicated that both VAT rebate schemes assist competitiveness of the Irish fishing and seafood sector (see table overleaf).

Table 6.26: Views of Fishermen and Sea Food Firms on Impact of VAT Rebate Schemes and Marine Diesel VAT to Assist Competitiveness of Irish Fishing and Seafood Sector - % of Respondents						
	Strongly Agree	Agree	Disagree	Strongly disagree	Don't Know / Neither Agree nor Disagree	Total
VAT Rebate Scheme on Specified Sea Fishing Vessels and Equipment	46%	35%	5%	3%	11%	100%
Marine Diesel VAT Rebate Scheme	56%	29%	6%	0%	9%	100%

Source: Indecon Confidential Information Request to Fishermen on Aspects of Marine Taxation

Because of the negligible costs it is not appropriate to attempt estimate of costs and benefits but our analysis suggests the measure has some marginal net benefits.

6.7 Industrial Buildings Allowance

6.7.1 Costs

The Revenue Commissioners indicate that the number of companies availing of this measure is normally very small which means that historical estimates of the tax cost of capital allowances for dock undertakings cannot be reported due to confidentiality reasons but that the estimated tax cost is normally below €0.5 million. However, the Revenue Commissioners also indicate that the number of companies availing increased slightly in 2013 and they estimate that the tax cost of this measure was €1.7 million in 2013. We therefore take an average across 2012 (with an estimated maximum tax cost of €0.5 million) and 2013.

Table 6.27 presents Indecon's estimate of the total economic costs associated with the application of the Industrial Buildings Allowance to dock undertakings. Including an adjustment for the shadow price of public funds and administration costs of 1%, we estimate that the total economic costs of the measure are €1.44 million.

Table 6.27: Estimate of Total Costs - Industrial Buildings Allowance	
	€ million
Tax Foregone	1.10
Shadow Price of Public Funds Adj	0.33
Administration costs	0.011
Total Economic Costs	1.44
Source: Indecon analysis	

6.7.2 Benefits

Table 6.28 overleaf sets out the views of fishermen, sea food firms and shipping/port companies on the impact of the application of the industrial buildings allowance in encouraging increased investment in port infrastructure. 40% of respondents strongly agree that the Industrial Buildings Allowance increases investment in port infrastructure, with a further 31% of respondents agreeing that the measure leads to increased investment in port infrastructure.

Table 6.28: Views of Fishermen, Sea Food Firms and Shipping / Port Companies on Impact of Application of Industrial Buildings Allowance to 'Dock Undertakings' to Encourage Increased Investment in Port Infrastructure - % of Respondents					
Strongly Agree	Agree	Disagree	Strongly disagree	Don't Know / Neither Agree nor Disagree	Total
40%	31%	4%	2%	23%	100%
Source: Indecon Confidential Information Request to Fishermen, Sea Food Firms and Shipping / Port Companies on Aspects of Marine Taxation					

Table 6.29 reveals that 70% of respondents agree or strongly agree that the Industrial Buildings Allowance for dock undertakings assists in improving the competitiveness of Irish ports.

Table 6.29: Views of Fishermen, Sea Food Firms and Shipping / Port Companies on Impact of Application of Industrial Buildings Allowance to 'Dock Undertakings' to Improve Competitiveness of Irish Ports - % of Respondents					
Strongly Agree	Agree	Disagree	Strongly disagree	Don't Know / Neither Agree nor Disagree	Total
35%	35%	7%	1%	22%	100%
Source: Indecon Confidential Information Request to Fishermen, Sea Food Firms and Shipping / Port Companies on Aspects of Marine Taxation					

Table 6.30 outlines that 72% of respondents agree or strongly agree that the measure assists in enhancing productivity.

Table 6.30: Views of Fishermen, Sea Food Firms and Shipping / Port Companies on Impact of Application of Industrial Buildings Allowance to 'Dock Undertakings' in Enhancing Productivity - % of Respondents					
Strongly Agree	Agree	Disagree	Strongly disagree	Don't Know / Neither Agree nor Disagree	Total
37%	35%	6%	0%	23%	100%
Source: Indecon Confidential Information Request to Fishermen, Sea Food Firms and Shipping / Port Companies on Aspects of Marine Taxation					

Indecon also asked respondents to give their view on the percentage annual increase in investment in port infrastructure which occurred over the last 10 years due to the application of the Industrial Buildings Allowance to dock undertakings.

Table 6.31: Views of Fishermen, Sea Food Firms and Shipping / Port Companies on Percentage Annual Increase in Investment in Port Infrastructure over Last 10 Years due to Application of Industrial Buildings Allowance to 'Dock Undertakings' - % of Respondents	
	%
>0 – <5%	22%
>5 – <10%	16%
>10 – <20%	18%
>20 – <30%	17%
>30 – <50%	26%
Other	1%
Total	100%
Source: Indecon Confidential Information Request to Fishermen, Sea Food Firms and Shipping / Port Companies on Aspects of Marine Taxation	

The weighted average percentage annual increase in investment in port infrastructure as a result of the Industrial Buildings Allowance is estimated to be 19%.

Table 6.32: Views of Fishermen on Percentage Annual Increase in Investment in Port Infrastructure over Last 10 Years due to Application of Industrial Buildings Allowance to 'Dock Undertakings' - Weighted average

	%
Weighted average percentage annual increase	19%
Source: Indecon Confidential Information Request to Fishermen on Aspects of Marine Taxation	

We apply the estimate of the percentage increase in investment due to the Industrial Buildings Allowance to the average total investment in the Ports in 2012 and 2013 to obtain an indication of the increase in investment attributable to the scheme. Average capital expenditure across nine ports in Ireland in 2012 and 2013 was €26.0 million. We estimate that €4.94 million of this investment would not have occurred in the absence of the Industrial Buildings Allowance, by applying the 19% percentage annual increase obtained from primary research.

We consider two scenarios: a conservative Scenario A which assumes that the increased investment arising from the application of the Industrial Buildings Allowance to dock undertakings is equal to €4.94 million. We subsequently consider an alternative Scenario B which assumes higher benefits with an increase in investment due to the measure equal to €9.88 million.

Scenario A

The economic benefits arising from the scheme are estimated to be construction benefits. We assume that 50% of the investment in the Ports is labour-related. There is associated tax revenue arising from this increased employment as well as VAT revenue due to the additional expenditure. The economic benefits of the scheme are estimated to be €1.67 million, with additional multiplier impacts of €0.26 million, as demonstrated in Table 6.33. The multiplier impact is not included in our cost-benefit analysis.

Table 6.33: Summary of Economic Benefits of Industrial Buildings Allowances – Scenario A: Conservative Assumption on Benefits

Construction Benefits (initial)	
Total additional investment (€m)	4.94
Labour expenditure of additional investment (€m)	2.47
Benefit of additional labour spend adjusted for 80% opportunity cost of labour (€m)	0.49
Tax Revenue from Construction	
Additional tax arising from increased employment (€m)	0.17
Tax benefit (shadow priced - public funds) (€m)	0.22
VAT	
Additional VAT benefit from increased capital spend (€m)	1.14
<i>Estimated Benefits (€m)</i>	<i>1.67</i>
Multiplier Impacts	
Multiplier impacts from construction (€m)	0.29
Multiplier impacts from construction - accounting for deadweight (€m)	0.26
Benefits including multiplier impacts (€m)	1.93
Source: Indecon analysis	

Scenario B

In Scenario B, we assume that the increase in investment due to the measure is €9.88 million per annum. Taking into account initial construction benefits, tax revenue from construction and additional VAT revenue leads to an estimated benefit of €3.34 million associated with the measure, as presented in Table 6.34. Additional multiplier benefits of €0.52 million are also estimated but, as above, these multiplier benefits are not included in our cost-benefit analysis.

Table 6.34: Summary of Economic Benefits of Industrial Buildings Allowances – Scenario B: Higher Benefits	
Construction Benefits (initial)	
Total additional investment (€m)	9.88
Labour expenditure of additional investment (€m)	4.94
Benefit of additional labour spend adjusted for 80% opportunity cost of labour (€m)	0.99
Tax Revenue from Construction	
Additional tax arising from increased employment (€m)	0.35
Tax benefit (shadow priced - public funds) (€m)	0.45
VAT	
Additional VAT benefit from increased capital spend (€m)	2.27
<i>Estimated Benefits (€m)</i>	<i>3.34</i>
Multiplier Impacts	
Multiplier impacts from construction	0.58
Multiplier impacts from construction - accounting for deadweight	0.52
Benefits including multiplier impacts (€m)	3.86
Source: Indecon analysis	

6.7.3 Costs and Benefits**Scenario A**

Table 6.35 sets out the costs and benefits associated with the application of the Industrial Buildings Allowance to dock undertakings, averaged across 2012 and 2013. The net benefit of the measure, including adjustments for the shadow price of public funds, the opportunity cost of labour and 10% deadweight, is estimated to be €0.23 million.

Table 6.35: Costs and Benefits - Application of Industrial Buildings Allowance to Dock Undertakings 2012-2013– Scenario A: Conservative Assumption on Benefits	
Average Cost of Application of Industrial Buildings Allowance to Dock Undertakings 2012-2013 (€m)	1.10
<i>VAT benefit from increased investment (€m)</i>	<i>1.14</i>
Quantified Benefits of Measure before taking account of opportunity cost of labour (€m)	3.78
Non-Quantified Benefits	Improves Competitiveness of Irish Ports
	Enhances Productivity
Net Benefit with adjustments for shadow price of public funds, opportunity cost of labour and 10% deadweight (€m)	0.23
Source: Indecon analysis	

Scenario B

A higher assumption on the increase in investment associated with the measure as well as fixed average costs of the measure lead to an estimated net benefit of €1.90 million under Scenario B, as shown in Table 6.36.

Table 6.36: Costs and Benefits - Application of Industrial Buildings Allowance to Dock Undertakings 2012-2013– Scenario B: Higher Benefits	
Average Cost of Application of Industrial Buildings Allowance to Dock Undertakings 2012-2013 (€m)	1.10
VAT benefit from increased investment (€m)	2.27
Quantified Benefits of Measure before taking account of opportunity cost of labour (€m)	7.56
Non-Quantified Benefits	Improves Competitiveness of Irish Ports
	Enhances Productivity
Net Benefit with adjustments for shadow price of public funds, opportunity cost of labour and 10% deadweight (€m)	1.90
Source: Indecon analysis	

6.8 Employment and Investment Incentive and Start-up Relief for Entrepreneurs Schemes

The estimated uptake of EII and SURE for port and shipping companies was zero in 2014 and thus the estimated tax cost of port investment and shipping investment related to the schemes was €0 in 2014. In addition, negligible uptake was noted for seafood/aquaculture companies and fishermen/fishing companies leading to a negligible tax cost being estimated by the Revenue Commissioners.

6.9 Industry Views on New Potential Marine Tax Measures

Indecon's primary research among shipping port/companies, sea food firms and fishermen additionally addressed the importance of any new potential marine tax measures which could be introduced. Table 6.37 outlines the views of shipping/port companies on the importance of any new potential marine tax measures. Key strategic issues seen as requiring investment by the port/shipping sector include: port capital expenditure, green marine equipment, enhanced incentives for shipping to develop Ireland as an international shipping centre, and measures to encourage repair of vessels.

Table 6.37: Views of Shipping/Port Companies on Importance of Any New Potential Marine Tax Measures - % of Respondents							
	Very Important	Important	Neither Important nor Unimportant	Unimportant	Very Unimportant	Don't Know	Total
Incentives for investment in port centric buildings/structures	50%	13%	38%	0%	0%	0%	100%
Incentives to encourage repair/building/design of ships and other vessels in Ireland	43%	29%	14%	0%	14%	0%	100%
Incentives for investment in green marine equipment in ports/shipping sectors	63%	25%	13%	0%	0%	0%	100%
Enhanced incentives for shipping leasing activities	43%	43%	0%	14%	0%	0%	100%

Source: Indecon Confidential Information Request to Shipping/Port Companies on Aspects of Marine Taxation

Table 6.38 outlines the views of fishermen and sea food firms on the importance of any new potential marine tax measures. Key strategic areas which are seen as important include incentives for investment in fishing vessels, incentives to encourage repair/building/design of ships and other vessels, incentives for investment in seafood processing and measures to reduce the personal tax cost of certain fishermen who are at sea for long periods.

Table 6.38: Views of Fishermen and Sea Food Firms on Importance of Any New Potential Marine Tax Measures - % of Respondents							
	Very Important	Important	Neither Important nor Unimportant	Unimportant	Very Unimportant	Don't Know	Total
Incentives for investment in fishing vessels	77%	18%	2%	0%	0%	3%	100%
Incentives to encourage repair/building/design of ships and other vessels in Ireland	65%	28%	3%	1%	0%	4%	100%
Incentives for investment in seafood processing and seafood R+D	61%	25%	7%	1%	1%	5%	100%
Incentives for investment in green marine equipment in fishing sectors	46%	31%	12%	5%	1%	5%	100%
Enhanced incentives for fishing vessel leasing activities	31%	35%	13%	6%	4%	11%	100%
Measures to reduce personal tax cost of certain fishermen who are at sea for long periods	64%	22%	5%	2%	2%	5%	100%

Source: Indecon Confidential Information Request to Fishermen on Aspects of Marine Taxation

6.10 Summary of Findings

The key findings from analysis of the costs and benefits of existing marine tax measures include:

- ❑ Accounting for the shadow price of public funds, the opportunity cost of labour and deadweight, we estimate the net benefit of the tonnage tax regime to be €0.87 million. This implies a BCR of 4.32.
- ❑ The net benefit of the seafarer tax allowance and PRSI refund schemes when accounting for the shadow price of public funds is estimated to be €0.36 million. If alternative assumptions were made, the schemes would have a small net cost.
- ❑ Because of the negligible costs it is not appropriate to attempt an estimate of costs and benefits of the VAT rebate schemes but our analysis suggests the measure has some marginal net benefits.
- ❑ The net benefit of the application of the Industrial Buildings Allowance to dock undertakings is estimated to be €0.23 million under a conservative assumption of benefits. Under a higher assumption of benefits, the net benefit of the scheme is estimated to be €1.90 million per annum.
- ❑ Key strategic issues seen as requiring investment by the port/shipping sector include port capital expenditure, green marine equipment, enhanced incentives for shipping to develop Ireland as an international shipping centre and measures to encourage repair of vessels.
- ❑ Key strategic areas which are seen as important by fishermen and sea food firms include incentives for investment in fishing vessels, incentives to encourage repair/building/ design of ships and other vessels, incentives for investment in seafood processing and measures to reduce the personal tax cost of certain fishermen who are at sea for long periods.

7 Proposals from Stakeholder Consultations

7.1 Introduction

As part of our assessment, Indecon undertook a consultation process with key stakeholders in order to elicit views on the effectiveness of current taxation measures in place for the marine and maritime sector and to seek views on potential new initiatives which might be implemented. This consultation process comprised a number of different elements, incorporating invitations for written submissions and wider survey research.

In terms of the detailed submissions, responses were received from ports, shipping companies, sea fisheries and food producer companies, and from State agencies and representative organisations.

Indecon would point out that this section represents a summary of what proposals were put to us as part of the consultation process and does not reflect our assessment. Our recommendations are, however, presented in Chapter 8.

7.2 Ports

The submissions received relating to the ports sector included suggestions on wider taxation measures which could be applied specifically to the marine sector. These included proposals on investment supports, capital gains tax, measures to support businesses locating in ports and other measures.

7.2.1 Investment Supports

All of the submissions relating specifically to the port sector considered existing capital allowance measures. One of the proposals from the submissions was a request for the Revenue Commissioners to clarify exactly what constitutes a dock undertaking and what port-related plant and machinery qualify for capital allowances. For example, one respondent indicated that it would be useful for the Revenue Commissioners to confirm that civil works directly relating to facilitating the placing and moving of heavy lifting equipment would be regarded as qualifying expenditure, while another respondent sought for the Revenue Commissioners to confirm that allowances on capital expenditure on dredging include dredging of both shipping channel and quay side.

Industrial Buildings Allowance

Section 268 of the Taxes Consolidation Act (TCA) 1997 sets out the definition of qualifying “industrial building or structure” to which the Industrial Buildings Allowance applies. Of interest to the marine sector is the inclusion of a dock undertaking as a qualifying building or structure, where a dock is defined as “*any harbour, wharf, pier, jetty or other works in or at which vessels can ship or unship merchandise or passengers, but does not include a pier or jetty used primarily for recreation, and “dock undertaking is to be construed accordingly”*”. Many of the submissions received recommend an expansion to the definition of a dock undertaking to take account of the broad nature of port operations. Examples of suggested activities to be included under an expanded definition of dock undertaking include repair, maintenance, conversion, building and design, demolition/deconstruction of ships, boats, yachts and other vessels as well as off shore oil and gas support activities, structures used in operating commercial marinas or in attracting coastal tourism and warehousing. Other submissions recommend that all buildings, including office buildings, within the port area or that all civil works within a harbour estate should be classified under “dock undertaking” for the purposes of the Industrial Buildings Allowance.

Some of the submissions proposed changes to time period currently applied for the Industrial Buildings Allowance (25 years) and that the allowance only applies once the facility or asset is put into use. Given that construction of port-related structures can be a lengthy process, it is proposed that an accelerated Industrial Buildings Allowance could be introduced and additionally that the allowance could be applied from the time when the expenditure is incurred rather than when the facility or structure comes into use. Suggestions for the specific nature of an accelerated Industrial Buildings Allowance differ, and include:

- ❑ Re-classifying the definition of docks as plant and machinery, which means that docks would qualify for 8-year capital allowances; and,
- ❑ Allowances over a shorter period of time (at 10% or 15%) or accelerated allowances of 100% in respect of qualifying industrial buildings.

Capital Allowances for Port Plant and Machinery

A number of submissions also separately considered capital allowances for plant and machinery in the specific case of port-related operations, which have a write-down period of eight years. It has been suggested that the definition of qualifying plant and machinery could be extended to include facilities such as heavy lift equipment, crane tracks and runways, bulk stores and silos, slipways, quay walls and dry docks. It was suggested that a number of these assets would be considered as qualifying plant equipment in the UK.

Furthermore, a number of submissions recommended accelerated capital allowances of up to 100% on qualifying machinery and plant. Similarly to the Industrial Buildings Allowance, it was recommended that initial allowances should be permitted for this expenditure, i.e. that capital allowances should be based on the time period when the expenditure was incurred rather than when the asset was put into use.

Several submissions also proposed alterations to the treatment of plant and machinery where the life of the asset might be less than eight years, based on accounting depreciation.

Capital Allowances for Energy Efficient Equipment

The treatment of 100% accelerated capital allowances for expenditure on energy efficient equipment is outlined in Section 285A TCA 1997, with a list of qualifying technology set out in Schedule 4A. A number of submissions suggested expanding the list of qualifying energy efficient equipment to include certain items of environmentally friendly marine or port-specific equipment.

Capital Allowances for Dredging Activities

Section 303 TCA 1997 outlines capital allowances for dredging activities, which currently have a write-down period of 50 years with an initial allowance of 10% of expenditure incurred and annual write-down allowances of 2% thereafter. Many of the submissions recommended shortening this write-down period, with some suggesting acceleration to an eight-year period in line with capital allowances on machinery and plant.

Other Capital Allowances Measures

Several submissions recommended the introduction of a tax relief for capital expenditure on feasibility studies and planning applications, regardless of whether the project goes ahead.

One submission suggested the introduction of a marine-specific Annual Investment Allowance, similar to a scheme currently in place in the UK. Another submission suggested that capital allowances should be made available for third-party investors in port areas. Several submissions propose extending existing measures to allow for capital allowances for commercial buildings in the port area, either by allowing commercial buildings to qualify for the Industrial Buildings Allowance or by extending the Living City initiative to include commercial and residential buildings in port areas.

Employment and Investment Incentive

Another measure discussed by all of the port-related submissions is the Employment and Investment Incentive EII Income tax relief under this scheme may be availed of by investors investing in small businesses or businesses located outside of Dublin, Meath, Kildare, Wicklow and Cork (except Cork docklands) which pass the EU SME test. However, certain trading activities including “operations in the coal industry and in the steel and ship building sectors” are not eligible for the scheme, which means that companies in the ship building industry do not qualify for EII relief. The submissions propose various alterations to the existing scheme, including that the scheme be available to all SMEs located in port areas, expanding the scheme to include port infrastructure and port development and removing the exception on companies in the ship building industry.

Research and Development Tax Credit

The R&D tax credit is a 25% tax credit for qualifying Research and Development expenditure which can be set against a company’s Corporation Tax liability.¹²⁵ Several submissions proposed that consideration could be given to the existing R&D tax credit, to make it more applicable to maritime industry, for example by expanding the definition of qualifying expenditure to include expenditure on the development and design of structures, platforms and equipment used in aquaculture, marine research or marine installations, or to design a similar relief which would be more accessible to the maritime industry. It should be noted that this proposal was not restricted solely to the ports sector but applies rather as a recommendation for the wider maritime industry.

7.2.2 Capital Gains Tax

Capital Gains Tax Exemption or Rollover Relief

There were a number of suggestions made regarding exemptions or relief from Capital Gains Tax. Several respondents recommended extending CGT relief for personal investment in marine and port-related assets, with one submission proposing that this could be based on the CGT relief that was in place for disposals of property purchased up to 31st December 2014 where the property is held for more than seven years (Section 604A TCA 1997). Another respondent proposed extending the list of bodies which qualify for CGT exemptions on the disposal of assets under Schedule 15 TCA 1997 to include port authorities. In the absence of this extension being granted, this respondent suggested deferring the CGT charge on asset disposals in the event that proceeds were being re-invested in developing port assets (in a similar way to Section 597 TCA 1997, which ceased in 2002).

¹²⁵ <http://www.revenue.ie/en/tax/ct/research-development.html>

7.2.3 Measures to Support Businesses Located or Locating in Port Areas

Other Corporate Tax measures

Several submissions proposed to introduce Corporate Tax holidays for a limited time period (such as three years) for businesses locating in port areas. It is proposed that these corporate tax holidays could be extended in particular to companies with operations which benefit the port area through import or export of goods or which benefit the local economy, as determined by the Revenue Commissioners.

Another respondent proposed extending the 12.5% corporate tax rate to rental income from non-port-related tenants in the cases where the income is ancillary to the broader activities of a port undertaking. Such rental income is currently subject to the 25% corporate tax rate.

Exemption from local authority rates to port facilities and businesses

A number of submissions proposed extending an exemption from local authority rates to port facilities and businesses operating within the port area, in order to encourage businesses to locate their operations in port areas.

Tax relief for companies carrying out new trading activities

Two respondents proposed a tax relief for companies carrying out new trading activity within the port area, similar to the relief for investment in renewable energy generation which expired in December 2014 (Section 486B TCA 1997). It is suggested that this relief would take the form of a deduction in the calculation of a company's profits for tax purposes, based on investment in new ordinary shares in an Irish company created to undertake a qualifying project. It is proposed that these qualifying projects would be approved by the Minister for Transport and would contribute to the development of the port estate as a business hub.

Payroll tax write off for new employment

Two submissions proposed incentivising employment in the port areas through a tax deduction on payroll costs for new employees locating in port areas.

Capital grants

Two submissions propose the introduction of capital grants for companies located in the port area which purchase equipment to service the heavy lift industry and also for the construction of storage for agricultural products (including animal feed).

7.2.4 Other Proposed Measures

Planning Application Process

Two of the submissions proposed that it would be useful to develop a fast-track planning application process for ports, with fixed timeframes set in advance for the planning process and with time limits for decisions in the case of a judicial review.

Customs/duty-free

Two submissions proposed consideration of customs/duty-free provision, with a possibility of extending the designation of ‘free ports’ to any port developments in Ireland.

Other measures

A number of other possible measures were also proposed in the submissions. An exemption from VAT on maritime-related purposes for public authorities was proposed in two of the submissions.

7.3 Shipping Companies

One of the key existing taxation measures in relation to shipping is the tonnage tax regime.

7.3.1 Tonnage Tax Regime

A number of shipping companies and institutions related to shipping indicated the importance of the Irish tonnage tax regime in terms of allowing Irish-based firms to compete internationally. One of the submissions received details some of the comparative advantages of the Irish regime, which include a low effective tax rate, no charge on exiting the scheme early, no requirements with regards to crew training, location of registration of ship, vessel ownership or Irish flag. Other advantages also include no capital gains tax on disposal of a ship and the fact that the Irish tonnage tax regime represents permanent tax savings rather than deferral of tax. However, one of the submissions outlines that Ireland has demonstrated a relatively poor performance in attracting tonnage tax companies and a number of possible alterations to the existing tonnage tax regime have been suggested by respondents in order to improve the attractiveness of Ireland from a shipping perspective. Some of the proposed changes suggested by a number of stakeholders include the following:

- Including profits arising from selling a vessel prior to operations within “relevant shipping profits”. This measure is proposed to address the fact that the circumstances of shipping companies may change between the commissioning of a vessel and the time at which the vessel is ready to be put into use – current treatment means that the sale of this vessel would be subject to capital gains tax;
- Widening the definition of “relevant shipping income” to permit a de-minimis level of non-qualifying income in an overseas shipping company when considering treatment of dividends;
- Encompassing profits from door-to-door shipping under the tonnage tax regime in a similar manner to the UK. Under the Irish system, shipment is divided into provision of container, road transport to the seaport and sea transportation, with only the latter qualifying for treatment under the Irish tonnage tax regime; and,
- Allowing certain bareboat charter activities to qualify for the Irish tonnage tax regime.

Most of the above suggestions are fairly straightforward but it is useful to refer in some more detail to the issue of bareboat charters. This relates to the meaning of operating a ship as outlined in the Irish tonnage regime. Specifically the Irish regime implies that:

“A company does not operate a ship chartered out by it on a bareboat charter unless the charter out is to a company which is both a qualifying company and a member of the same group as the group the owner of the ship belongs to. In such a case, the owner is regarded as operating the ship”.

One of the submissions to this review pointed out that a number of other countries within the European Union currently allow bareboat charter to fall within the scope of their respective tonnage tax regime in certain circumstances. This submission suggested that:

“Under the current Irish tonnage tax legislation, where a company bareboat charters a vessel to another company, the first mentioned company may not avail of the benefits of the Irish tonnage tax regime and this activity would not be regarded as a qualifying shipping activity for the purposes of the Irish tonnage tax rules (other than is provided for under the limited circumstances set out in the tonnage tax legislation). However, we understand that a number of countries, including Cyprus and Luxembourg within the European Union and Norway, currently allow bareboat charter to fall within the scope of their respective tonnage tax regimes in certain circumstances. In order to be internationally competitive in the shipping sector, we propose that an amendment is made to the Irish tonnage tax legislation such that bareboat charter activities in certain circumstances qualify for the Irish tonnage tax regime, as is the case with other leading tonnage tax jurisdictions. Such an amendment to the Irish tonnage tax legislation could lead to significant job opportunities in Ireland in the same way that aircraft leasing has become an important employer and tax generator for the country”.

Another submission highlighted the view that the fact that bareboat out chartering is not regarded as qualifying activity under the Irish tonnage tax regime is a disadvantage of the Irish scheme which should be addressed.

Another submission suggested that such a change could support the creation of an international vessel leasing hub in Ireland.

Other proposed changes to the tonnage tax regime include:

- Include a relieving provision (based on Section 1035A TCA 1997) to protect foreign ship owning companies who engage the services of Irish ship management companies from creating a permanent establishment in Ireland (and therefore becoming liable to pay Irish tax). This could encourage growth in the Irish ship management sector;
- Allow dredgers and shuttle tankers to qualify for the tonnage tax regime;
- Address the double charge faced by groups in the situation where ship owning companies charter vessels to another ship owning company within the same group;
- Extension of definition of “relevant shipping income” to include sales and facilities provided by customers by seagoing passenger ships, such as in UK; and,
- Extend definition of relevant shipping income to include interest earned on loan notes issued by a foreign subsidiary which is a tonnage tax company.

7.3.2 Double Taxation Agreements

Several respondents expressed overall satisfaction with Ireland's Double Taxation Agreement network. However, it was proposed that the DTA network could be improved by extending DTAs with full shipping exemptions to countries such as Brazil, Argentina and Indonesia. This would result in the removal of freight tax for Irish ships stopping in ports in these countries. One of the submissions received indicated the view that Ireland's DTA network must continue to expand so as to remain competitive. Consideration could also be given to introducing Maritime Specific Bilateral Arrangements (MSBAs) in the cases where DTAs are not likely to be put in place.

7.3.3 Personal Tax Measures

One of the submissions outlined that relatively high labour costs in Ireland mean that employment is outsourced to foreign crewing agencies and that relatively high personal taxation acts as an impediment to recruiting experienced staff from overseas to work for companies settling in Ireland. Several of the measures proposed under this heading were put forward by respondents who expressed the hope that Ireland might be able to develop a crewing agency industry in Ireland, such as currently exists in the Isle of Man and Cyprus.

PRSI refund scheme for seafarers

A number of respondents expressed the view that the existing PRSI relief for employers in the shipping sector should be retained, highlighting the importance of this scheme in reducing labour costs for some operators. It is felt that in the absence of this scheme, the higher cost of employing Irish crew would be likely to lead to a reduction in employment opportunities for Irish seafarers with Irish vessels. One of the submissions indicated that the scheme has been under-utilised and could additionally be extended to other labour intensive sectors of the marine economy, such as shipbuilding and repair, aquaculture and fishing.

Seafarers' tax free allowance

Respondents were in favour of retaining the existing seafarers' allowance but a number of possible modifications to the scheme were proposed in various submissions. One of the submissions noted that only about 20% of registered seafarers in Ireland qualified for the scheme in its present state and thus proposed a review to make sure that the scheme is more widely available. The existing scheme allows for an income tax allowance of €6,350 for seafarers who are at sea on a voyage to or from a foreign port for at least 161 days in a tax year. One of the respondents proposed reducing the number of necessary days at sea.

Several respondents recommended changing the definition of "international voyage" to mean "a voyage that involves time spent outside Irish territorial waters" or to include journeys starting and finishing in home ports, which would allow seafarers employed on vessels such as research vessels and ferries to qualify for the support. An alternative proposal was to consider a scheme similar to the UK's Seafarers' Earnings Deduction, which allows for a 100% deduction on earnings abroad under certain conditions, or to calculate an allowance based on a UK relief which would equal "Earnings from the employment x number of working days outside Irish territorial waters/total working days".

One submission expressed concern about the 280 day “look-back” rule, where an individual who has spent 280 or more days in Ireland over a period of two consecutive tax years is considered to be resident in Ireland for the second tax year.

Another submission proposed a zero income tax policy for seafarers, following some international examples.

Training at NMCI

Several submissions considered the shipboard training grant (ISEAS) paid through the Irish Maritime Development Office (IMDO) to companies for cadets attending training at the National Maritime College of Ireland (NMCI), which helps to subsidise placements on ships for cadets. It was felt that this scheme should be retained, and indeed one of the submissions recommended the provision of a higher percentage of funding for the training of cadets. Another submission indicated that any increase in funding for this scheme would allow for an increase in the number of maritime professionals trained in Ireland.

Another suggested initiative was a tax relief for seafarers’ training at the NCMI. Alternative proposals include creating a tax credit linked to training of a certain percentage of training costs or including maritime third level qualifications in the individual training tax relief.

7.3.4 Other Proposed Measures

One of the submissions addressed ship building in Ireland and recommended that shipbuilding in Ireland should be supported by bank funding with Government backing and that it would be useful if a signed contract to build a vessel could be used to obtain a mortgage to fund the project’s working capital requirement. The submission outlined the employment generated by winning a shipbuilding contract and indicated the need for tax incentives and financial assistance to support small companies in particular. This submission additionally recommended that tax reliefs should be made available for investment in the construction of vessels designed to meet the daily requirements of offshore wind farms.

Another submission proposed the creation of an Irish Premium Shipping Register providing a premium service to run alongside the existing Shipping Register and additionally proposed the introduction of a tax credit for companies listed on the Premium register amounting to Irish payroll taxes deducted on wages of on-board crew, similar to an existing tax credit in Italy. It is envisaged that this would provide additional incentives for shipping companies considering locating part of their operations in Ireland. (Indecon would note that there is only one flag and one register applicable to all in the Irish system)

Some of the submissions also consider the treatment of VAT in the shipping sector. Several submissions recommended that maritime-related safety equipment should be made VAT-free. One respondent recommended that the current VAT treatment of on-board services and passenger transport should be maintained to avoid increases in ticket prices.

One of the submissions endorsed plans for the development of an Irish Shipping Finance Centre in Dublin and proposed the establishment of a Centre for Maritime Arbitration to provide neutral arbitration of international marine disputes.

7.4 Fishermen and Seafood Companies

One of the key problems highlighted under this heading was difficulties in attracting younger entrants to the sector.

7.4.1 Taxation of Fishermen

Concerns were expressed surrounding the present system of taxation of fishermen. Most fishermen in Ireland are treated as self-employed for tax purposes, which is considered to limit access to social welfare, increase administrative burden for fishermen due to self-assessment tax code and remove entitlement to employee tax credit and seafarers' allowance. Three organisations responding in one joint submission recommended consideration of a withholding (voluntary tax deduction) regime for share fishermen, based on a similar scheme which exists in the UK. The idea of this regime would be for the vessel owner to deduct tax at a certain percentage (say, 15%) each time they make a payment to a share fisherman. This would be treated as payment on account by share fisherman and would satisfy their administrative obligations.

Furthermore, the submission recommends extending employee tax credits and the seafarer allowance for fishermen who meet the necessary requirements. Another proposal to address concerns surrounding the taxation of fishermen is to build a scheme similar to the family income supplement scheme for self-employed fishermen, incorporating means testing as in the farm assist scheme. The respondents acknowledge the existence of the fish assist scheme but notes that this involves strict means testing and long processing which has a significant impact on the ability of fishermen to access social welfare when compared to other sectors of the economy.

Domicile Levy

The domicile levy of €200,000 is charged on individuals who are Irish-domiciled with worldwide income exceeding €1m, with Irish property valued over €5m and with an Irish income tax liability of less than €200,000.¹²⁶ One of the submissions outlined that the domicile levy is having a disproportionate impact on sole trading fishermen and therefore proposes that the legislation should be amended to account for this by changing the definition of "Irish Property" or the definition of "World-wide Income". Indecon are, however, not recommending any change in this area.

7.4.2 R&D tax credit

As outlined previously, there is currently a tax credit of 25% available to all sectors for expenditure on R&D against corporation/income tax liability. Two of the submissions received recommended increasing this credit for the marine sector in particular due to the R&D requirements of the aquaculture and commercial seaweed industries, with one of the respondents proposing an increase to 40%.

¹²⁶ <http://www.revenue.ie/en/tax/domicile-levy/>

7.4.3 Capital allowances

Two of the respondents recommended consideration of existing capital allowances on plant and machinery for aquaculture operators in particular. It was felt that the current write-down period of eight years is too long in the specific case of plant and machinery in the marine sector. One of the respondents proposed reducing the write-down period to 4-5 years, while the other respondent recommended introducing accelerated 100% capital allowances for a period of three years to stimulate investment in the sector and setting a write-down period of three years thereafter.

Three organisations recommended extending the tax amortisation regime (currently applicable for the purchase of new vessels) to investment in capacity and tonnage – following treatment of intangible assets in other sectors of the economy (Section 291A TCA 1997).

7.4.4 VAT Treatment of Vessels

The system currently in place treats the acquisition, maintenance and repair of vessels differently for VAT purposes based on the gross tonnage of the vessel – vessels with gross tonnage exceeding 15 tonnes are zero-rated for VAT purposes but vessels with gross tonnage less than 15 tonnes are subject to VAT at the standard rate. One of the submissions indicates that this leaves smaller vessels at a disadvantage and proposes removing the gross tonnage requirement for VAT zero rating.

7.4.5 Incentives for aquaculture sector similar to agriculture sector

Two of the submissions recommended introducing certain initiatives for the aquaculture sector based on measures already in place for the agriculture sector. Both submissions recommended the introduction of a tax relief for organic aquaculture production, possibly in the form of an income/corporation tax reduction. Particular focus was placed on the importance of attracting younger people to the sector, with both submissions recommending the introduction of income averaging for new entrants and one of the submissions proposing a Young Aquaculture Farmers Scheme. The submissions also recommended consideration of schemes to assist with succession planning in the aquaculture sector, based on existing measures in the agriculture sector such as:

- Aquaculture relief (based on Agriculture Relief); and,
- Stamp duty exemption on inheritance in aquaculture.

Another measure proposed by one of the respondents was stock relief for aquaculture animals, with special provisions for farms inherited by family members or start-ups by producers aged under 35. Another submission proposed to allow stock costing to be spread over the life of the fish given the time needed for species to reach saleable size. This submission also noted that the corporate tax rate should take into account the fact that fish are being produced for the export market. This submission additionally noted that the licensing procedure to benefit from grants on capital investments is very limiting.

7.4.6 Decommissioning

One of the submissions recommends the introduction of a decommissioning scheme which extends retirement relief from CGT to individuals who might be aged under 55, and also allows for a five-year period to discharge any taxes arising on any balancing charge on the decommissioning of a boat.

7.5 Summary of Findings

Key proposals arising from the stakeholder consultations from the ports sector include:

- Key proposals arising from the stakeholder consultations from the ports sector include:
 - Expand definition of ‘dock undertaking’ for the purposes of Industrial Building Allowance
 - Expand other existing capital allowance measures for port/marine-specific equipment
 - Expansion of Employment and Investment Incentive
 - Expansion of the R&D tax credit
 - Capital Gains Tax Exemptions or Relief for Port Assets
 - Corporate tax measures
 - Exemption from local authority rates to port facilities and businesses
 - Tax relief for companies carrying out new trading activities
 - Payroll tax write off for new employment
 - Capital grants

- Some of the key proposals arising from consultations with the shipping sector include:
 - Widening definition of shipping income and shipping profits in existing tonnage tax regime
 - Allowing bareboat charter activities to qualify for tonnage tax regime
 - Other changes to tonnage tax regime
 - Extending Ireland’s Double Taxation Agreement (DTA) network to countries such as Brazil, Argentina, Indonesia
 - Retaining PRSI refund scheme and consider extension to other sectors of the marine economy
 - Expanding definition of international voyage for seafarers’ tax allowance
 - Retaining ISEAS training grant and consider tax measures for seafarers’ training at NCMI
 - Other measures including grant rebate for PAYE paid by certain shipping companies on Irish shipping register with enhanced measures

- A number of proposals arose out of consultation with the fishing and seafood sector, including:
 - Consider withholding (voluntary tax deduction) regime for share fishermen (as in UK)
 - Extend employee tax credits and seafarer allowance for fishermen who meet necessary requirements
 - Increase R&D tax credit for the marine sector
 - Shorten write-down period for plant and machinery in marine sector
 - Remove 15-tonne gross tonnage requirement for VAT zero rating
 - Consider application of incentives from agriculture sector such as Tax relief for organic aquaculture production, Income averaging for new entrants, Young Aquaculture Farmers Scheme, Aquaculture Relief (based on Agriculture Relief), Stamp Duty exemption on inheritance in aquaculture and Stock Relief for aquaculture
 - Measures to assist decommissioning of fishing vessels.

8 Recommendations for Enhanced Marine Taxation Measures

8.1 Introduction

In this section, we put forward our recommendations for changes to existing taxation measures in the marine sector in Ireland as well as proposals for introduction of new measures. These recommendations have been formulated based on the rigorous evaluation of costs and benefits of existing measures and have been informed by the proposals arising from the stakeholder consultations, Indecon’s primary research and reviews of specific marine taxation measures currently in place in other jurisdictions. These recommendations also take account of the existing contribution of the marine sector to the Irish economy as well as growth targets which have been set out.

The recommendations have been designed to achieve strategic objectives for the sector so as to enable the sector to expand. These strategic objectives include:

- Facilitate additional investment to support growth;
- Assist viability and safety of fishing sector;
- Develop new Marine Market segments;
- Encourage investment in green technology and equipment;
- Support promotion of Ireland as international shipping centre;
- Encourage new entrants to fishing sector;
- Facilitate necessary capital investment in key ports and harbours;
- Enable fishing sector to undertake target de-commissioning of old vessels;
- Enable continuity of raw material supply for value added sectors; and,
- Assist in building companies of scale in seafood processing and aquaculture.

8.2 EU and National Fiscal Context

When considering any possible changes to tax expenditures, it is important to consider the EU and national fiscal context.

8.2.1 EU Fiscal Requirements

The Stability and Growth Pact aims to ensure that countries in the European Union pursue sound public finances and coordinate their fiscal policies.¹²⁷ The SGP comprises a ‘preventive arm’, which “aims at guaranteeing a sound budgetary position in all Member States: its core is the attainment by each Member State of its medium-term sound budgetary position (so-called Medium-Term Objective or MTO), which is set according to commonly agreed principles”.¹²⁸

¹²⁷ European Commission, *Stability and Growth Pact*, http://ec.europa.eu/economy_finance/economic_governance/sgp/index_en.htm

¹²⁸ European Commission, *Communication from the Commission to the European Parliament, the Council, the European Central Bank, the Economic and Social Committee, the Committee of the Regions and the European Investment Bank – Making the Best Use of the Flexibility within the Existing Rules of the Stability and Growth Pact*, COM(2015)12 final, 13.1.2015

The legislation underpinning the ‘preventive’ arm of the Stability and Growth Pact is Council Regulation (EC) No 1466/97, subsequently amended by Council Regulation (EC) No 1055/2005 and Regulation (EU) No 1175/2011 of the European Parliament and of the Council. The purpose of the ‘preventive arm’ is outlined in Article 1, which states:¹²⁹

“This Regulation sets out the rules covering the content, the submission, the examination and the monitoring of stability programmes and convergence programmes as part of multilateral surveillance by the Council and the Commission so as to prevent, at an early stage, the occurrence of excessive general government deficits and to promote the surveillance and coordination of economic policies thereby supporting the achievement of the Union’s objectives for growth and employment.”

The Medium-Term Budgetary Objectives were set out in Council Regulation (EC) No 1466/97, which indicated that MTOs should be revised every three years and “shall ensure the sustainability of public finances or a rapid progress towards such sustainability while allowing room for budgetary manoeuvre, considering in particular the need for public investment”.¹³⁰ Member States are expected to reach their MTOs (which are updated every three years) or to be heading towards them by adjusting their structural budgetary positions at a rate of 0.5% of GDP per year as a benchmark.¹³¹

Amendments to the preventive arm of the SGP made in 2011 include an expenditure benchmark – which indicates that the growth rate of government expenditure should normally not exceed a reference medium-term rate of potential GDP growth.¹³² In addition, the Fiscal Compact limits the size of the deficit that any Government can run per year to 0.5% of GDP.¹³³

The SGP also comprises a ‘corrective arm’ which “deals with situations in which the government deficit and/or the debt are above the reference values set in the Treaty; in these cases, Member States are then subject to an Excessive Deficit Procedure (“EDP”), which entails stricter conditions and monitoring”.¹³⁴

Articles 126 of the TFEU and Protocol (No 12) require the European Commission to examine compliance with budgetary discipline on the basis of the following two criteria:

- Whether the ratio of the planned or actual government deficit to gross domestic product exceeds 3%; and,
- Whether the ratio of government debt to gross domestic product exceeds 60%, unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace (i.e. if the differential with respect to the reference value has decreased over the previous three years at an average rate of one twentieth per year as a benchmark).

¹²⁹ Ibid.

¹³⁰ Ibid.

¹³¹ European Commission, The preventive arm, http://ec.europa.eu/economy_finance/economic_governance/sgp/preventive_arm/index_en.htm

¹³² Official Journal of the European Union, Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and surveillance and coordination of economic policies, OJ L 306, 23.11.2011, p. 12-24.

¹³³ European Commission, EU economic governance, http://ec.europa.eu/economy_finance/economic_governance/index_en.htm

¹³⁴ European Commission, *Communication from the Commission to the European Parliament, the Council, the European Central Bank, the Economic and Social Committee, the Committee of the Regions and the European Investment Bank – Making the Best Use of the Flexibility within the Existing Rules of the Stability and Growth Pact*, COM(2015)12 final, 13.1.2015

If Member States do not adhere to these requirements, they enter an Excessive Deficit Procedure (EDP) which can lead to sanctions. An ongoing Excessive Deficit Procedure is in place for Ireland, with a current decision deadline of 2015.¹³⁵ The Council recommended that the Irish authorities should implement measures such that the general government deficit does not exceed 2.9% of GDP in 2015.¹³⁶

8.2.2 National Taxation Policy

It should be noted that Ireland is now operating in a new tax space. The Department of Finance published Tax Expenditure Guidelines in October 2014, which set out the criteria for evaluating proposed tax expenditure schemes. The objective of the Tax Expenditure Guidelines is to “promote high standards in tax expenditure evaluation and provide guidance and clarity to interested parties as to how the Department of Finance will approach the evaluation of new or existing tax expenditures”.¹³⁷

The Tax Expenditure Guidelines were based on principles set out in the Medium-Term Economic Strategy 2014-2010, which indicated that the Government will:¹³⁸

- “Support economic growth by ensuring any tax increases be effected in the first instance by base broadening through the elimination or curtailment of overly-generous, poorly targeted or otherwise unaffordable tax reliefs
- Use the tax system in limited circumstances where there are demonstrable market failures and where a tax-based incentive is more efficient than a direct expenditure intervention
- Time-limit all tax expenditures and subject those with higher costs to ex ante evaluation
- Conduct a regular programme of tax relief reviews using public consultation as appropriate and publish the results.”

For tax expenditures with an estimated annual cost of between €1 million and €10 million, ex ante assessment is required along with identification of criteria for *ex post* evaluation. The tax expenditure will then be evaluated through an ex post review after five years by applying the ex post criteria.

The Government’s Spring Economic Statement, published in April 2015, outlined that there can be a role for carefully targeted tax reliefs and that supports will be informed by a convincing economic rationale, will be fit-for-purpose and cost-effective. The Spring Economic Statement further outlined that:¹³⁹

- “The requirements of the corrective arm of the SGP are relatively simple and well understood – headline deficits must be brought below 3% of GDP in a timely manner (...) – Ireland is on track to correct the excessive deficit this year.”

¹³⁵ European Commission, The corrective arm, http://ec.europa.eu/economy_finance/economic_governance/sgp/corrective_arm/index_en.htm

¹³⁶ European Commission, *Communication from the Commission to the Council – Assessment of the action taken by Ireland in response to the Council Recommendation of 7 December 2010 with a view to bringing an end to the situation of excessive government deficit*, COM (2011) 509 final

¹³⁷ Department of Finance, “Report on Tax Expenditures – Incorporating Department of Finance Guidelines for Tax Expenditure Evaluation”, October 2014

¹³⁸ Ibid.

¹³⁹ Department of Public Expenditure and Reform & Department of Finance, Spring Economic Statement 2015 April 2015

- “(...) an improvement in the structural deficit amounting to 0.3 per cent of GDP is expected in 2016, with an average annual structural effort of over 1.0 per cent per annum over 2015 to 2020 with the result that the MTO is achieved by 2019.”

There are therefore constraints on any new tax measures which can be implemented.

8.3 Overview of Recommendations

Indecon’s recommendations for taxation in the marine sector are set out in Table 8.1. These recommendations are designed to meet the strategic challenges for the sector and will be supportive of Government policy including the Foodwise 25 and BIM strategies. The main rationale for these recommendations is to create additional employment and retain existing jobs and to develop value added activity in the Irish economy.

Table 8.1: Summary of Recommendations	
Ports	
1.	Extension of dock undertaking capital allowance for ports to cover wider range of activities
2.	Widening of definition of port related plant and machinery operations eligible for tax allowances
Shipping	
3.	Introduction of enhanced trust certificates to promote Ireland as an international ship leasing centre
4.	Consideration to some amendments to the tonnage tax regime including the widening the definition of shipping income subject to EU State Aids approval
5.	Consideration of the extension of VAT rebate scheme to commercial ships registered in EU
Fishing, Aquaculture, Sea Food Processing	
6.	Application and promotion of EII and SURE Scheme to aquaculture, seafood processing and sea fishing enterprises sectors
7.	Introduction of seafarers’ tax allowances to sea fisheries
8.	Extension to fishing sector of Agricultural Relief from CAT
9.	Exemption of certain income from leasing of privately owned fisheries and related land for use by commercial fisheries or seafood sector
10.	Appropriate tax treatment to support proposed decommissioning scheme
All Marine Sectors	
11.	Enhanced marine tax measures for capital investment in marine energy efficiency equipment
12.	Consideration of expanded measures to assist marine sector including pilot initiatives to support marine tourism
Other	
13.	On-going monitoring of costs and benefits
Source: Indecon analysis	

8.4 Ports

Extension of Dock Undertaking Allowances for Ports to Cover Wider Range of Activities

Indecon recommends that the existing remit of the application of the Industrial Buildings Allowance to dock undertakings be expanded to a wider definition of dock undertaking. Allowances should apply to civil works such as capital expenditures and dredging of both the shipping channel and the quay side. Indecon proposes that the allowances should also apply to improvements to energy efficiency of ships and off shore oil and gas support. We also believe that there is merit in considering allowing accelerated capital allowances over seven years.

The strategic objective of this recommendation is to facilitate necessary capital investment in key ports. The likely benefits associated with this measure include increased capital investment in the Port sector, expansion of employment in certain new market niches and improved competitiveness of ports.

Widening of Definition of Port Related Plant and Machinery Operations

Specifically, Indecon recommends widening the definition of plant and machinery to include certain port and harbour-specific equipment such as heavy lift equipment, crane tracks and runways and silos. The strategic objective of this recommendation is similar to outlined in the previous recommendation; namely, to facilitate necessary capital investment in key ports as well as in fishery harbours. The likely benefits of this recommendation include increased capital investment in the port and harbours sector, expansion of employment in certain new market niches and improved competitiveness, as outlined for the above recommendation.

8.5 Shipping

Introduction of Incentives for Enhanced Trust Certificates to Promote Ireland as an International Ship Leasing Centre

Indecon recommends the introduction of a stamp duty exception on the issue and trading of EETCs. Initiatives to promote Ireland as an international services centre should be implemented by the IMDO and by the wider marine sector, and this recommendation has the strategic objective of promoting Ireland as an international services centre. The likely benefits of the measure are increased employment and expansion of shipping activity.

Enhanced Equipment Trust Certificates (EETCs) are already in place in Ireland for the aviation sector. EETCs are an aviation-specific form of asset backed security (secured on the asset as opposed to on the revenue stream) and are used to finance asset purchases.

A stamp duty exemption on EETCs was introduced in the Finance Bill 2013. The stamp duty exemption ensures that investment in EETCs is tax efficient for the investor, making Ireland an attractive location for EETC investment and the proposal is to utilise and promote this measure to market Ireland as a location for international ship leasing.

Consideration of some amendments to the tonnage tax regime including widening of definition of shipping income subject to State Aid requirements

In considering any changes to the tonnage tax regime we note that these would require approval by the European Commission and will need careful evaluation. Indecon notes that a previous recommendation in 2009 seeking to extend the scheme to include “time chartered vessels” was not implemented. In evaluating any changes it will be important to ensure that any EU application for approval does not adversely effect the existing tonnage tax regime.

The strategic objective of widening the definition of shipping income included under the tonnage tax regime would be to support the promotion of Ireland as an international shipping centre, and the likely benefits would include attracting new shipping companies to Ireland and facilitating shipping leasing. Particular areas that merit consideration include widening the definition of “relevant shipping income”: to include profits or losses on the disposal of a vessel prior to entering service as in Greece and Germany, provided that the company is not in the business of ordering a vessel with a view to selling them and to permit a de-minimis level of non-qualifying income (income which does not qualify as “relevant shipping income” in Ireland) from foreign subsidiaries for the purposes of determining whether the dividend qualifies as “relevant shipping income” for the Irish tonnage tax company. In addition, consideration might be given to allowing bareboat charter activities to qualify for the tonnage tax regime, as is the case in Cyprus, Luxembourg and Germany.” This latter proposal which was seen as addressing a disadvantage of the Irish regime by a number of stakeholders and further details are presented in Section 7.

The extension of the tonnage tax regime to fishing vessels with relevant tonnage or widening the definition of shipping income are measures which would be subject to state aid approval. Indecon proposes that all existing conditions of the tonnage tax would apply. The strategic objective of the extending the tonnage tax regime to fishing vessels would be to assist the viability of the existing fishing sector. The likely benefits associated with expanding the tonnage tax regime to include fishing vessels would be maintenance of employment in the sector, continuity of raw material supply and additional activity in regional areas. It would seem that fishing vessels qualify for tonnage tax regimes in some EU countries, such as Greece and Malta. The potential benefit of this proposal would be to remove a competitive disadvantage for the fishing sector compared to other countries and compared to other parts of the shipping sector.

Indecon, however, would caution against rushing action in this latter area and we note that the European Commission commenced an investigation into the tonnage tax regime and other incentives for shipping companies in Malta in July 2012. The European Commission expressed a number of doubts surrounding these incentives and questions to what extent, if at all, the following types of vessels can be admitted to the tonnage tax regime....

“Fishing vessels: these vessels are not covered by the Maritime guidelines. In addition, the Commission’s Guidelines for the examination of State aid to fisheries and aquaculture provide that operating aid to the export of or to trade in fishery products within or outside the EU is incompatible with the internal market. Consequently, at this stage the Commission has doubts whether the inclusion of these vessels in the tonnage tax regime is compatible with the internal market.”

Consideration of Extension of VAT Rebate Scheme to Commercial Ships Registered in EU

This recommendation envisages extending the VAT rebate scheme so that it is applicable to certain commercial ships on the same basis as the fishing vessels rebate scheme. Indecon proposes that this measure should not apply to personal leisure vessels because of equity considerations. The strategic objective of this recommendation is to support Ireland as an international shipping sector. The likely benefit associated with this measure is to assist competitiveness of non-VAT registered companies, and the costs are estimated to be negligible.

Indecon, however, accepts that the possibility of extending a VAT rebate to certain commercial ships needs to be considered in the context of the relevant VAT Directive. This Directive highlights a number of VAT exemptions relating to international transport. Of relevance are points (a) and (c) of the Directive as outlined below:

“Member States shall exempt the following transactions:

- (a) The supply of goods for the fuelling and provisioning of vessels used for navigation on the high seas and carrying passengers for reward or used for the purpose of commercial, industrial or fishing activities, or for rescue or assistance at sea, or for inshore fishing, with the exception, in the case of vessels used for inshore fishing, of ships’ provisions: the supply, modification, repair, maintenance, chartering and hiring of the vessels referred to in point (a), and the supply, hiring, repair and maintenance of equipment, including fishing equipment, incorporated or used therein”

Indecon’s interpretation of this is that it may permit a wider VAT rebate than existing scheme directed at fishing vessels but this requires further consideration.

8.6 Fishing, Aquaculture, Sea Food Processing

Application and promotion of EII and SURE Scheme to aquaculture, seafood processing and sea fishing

This recommendation is designed to make the EII and SURE incentives available to all qualifying SMEs in the marine sector in eligible areas. It is important to promote the measures and, given that the schemes are wide-ranging across all sectors of the economy, to ensure that they are applicable to the marine sector. The strategic objective of this recommendation is to assist in building companies of scale. The perceived benefits that would arise from this recommendation are enhanced investment in the sector, increased employment and expansion of existing firms. In the case of supporting the fishing sector some amendments to the schemes may merit consideration particularly given the fact that most fishermen do not operate as limited companies. Whether this is considered as a pilot initiative or in terms of wider changes small business support needs to be evaluated.

Introduction of Seafarers’ Tax Allowances to Fishermen

A condition of extending the seafarer tax allowances to fishermen would be that all existing requirements for eligibility would apply. In other words, fishermen would only qualify for the measure if they spent a minimum of 161 days at sea or on a voyage to/from a foreign port in any given tax year. Indecon understands however that not all fishermen would meet that limit in terms of days at sea and this merits further consideration given that fishermen have to spend some time onshore for vessel maintenance and net making and repairs. It may also be worthwhile to consider

the merits of an additional requirement on levels of safety training to qualify for the scheme. The strategic objective of this recommendation is to encourage new entrants to the fishing sector and to assist viability and safety of the sector, and it is perceived that the likely benefits of this recommendation would be greater equity for the fishing sector, increased employment in the fishing sector and enhanced safety.

It is envisaged that the introduction of the seafarers' tax allowance would be applicable to both employee and self-employed fishermen.

Extension to Fishing Sector of Agricultural Relief from CAT

Agricultural property such as farmland has benefited from specific sectoral tax reliefs since the introduction of CAT in 1975. While all businesses are entitled to business review the agricultural reliefs provides tailored reliefs which are more beneficial in certain circumstances in respect of both gift tax and inheritance tax.

In order to encourage new entrants to the marine sector and the productive use of marine resources Indecon recommends that the marine sector should be entitled to similar provisions to the agricultural relief.

Under these provisions qualifying assets such as fishing trawlers and buildings required for fishing or aquaculture would be entitled to obtain reliefs analogous to agriculture relief providing the beneficiary satisfies an 80% marine property test on the valuation date and the beneficiary either meets an actively engaged test or leases the vessels or property to a leasee who meets this test. All other provisions of the agricultural relief would apply and this relief would also apply to fish farms.

Appropriate Tax Treatment to Support proposed Decommissioning Scheme

Indecon recommends that there is consideration given to how tax measures will impact on arrangements for a Decommissioning Scheme. This is important as EU Commission Fisheries Policy has marked the next Decommissioning Scheme as the last opportunity for Member States to assist the removal of fishing capacity. State Aid for Decommissioning is strictly limited under the State Aid regime for fisheries and aquaculture. Unlike most possible aid measures for the seafood sector, decommissioning is not allowed under the Fisheries Block Exemption Regulation (1388/2014). It is allowed under EMFF Regulation (508/2014), but its extent is capped under art 25(3). The cap translates to €19m approx. for decommissioning and engine replacement combined. DAFM has allowed for €16m decommissioning in the EMFF Operational Programme (and €3m engine replacement). Any tax supports cannot result in additional state aid for decommissioning without specific state aid approval, which would be unlikely to succeed.

Exemption of Certain Income from leasing of land and privately owned fisheries for use by commercial fisheries or to assist development of aquaculture/seafood sectors

This measure consists of extending the land leasing measure currently in place in agri-tax to Ireland's marine sector. Consideration will have to be given to issues of applicability to marine tourism. It is envisaged that land leasing provisions would apply where the use of land is to gain access to or is directly related to aquaculture/seafood business. While Indecon recognises that there are no significant privately owned fisheries in Ireland, there are privately owned rivers and lakes and lands required to access publicly owned fisheries.

The strategic objective of this measure is to develop new marine market segments. The likely benefits associated with this measure are the development of value added activity and increased employment.

8.7 All Marine Sectors

Enhanced Marine Tax Measures for Capital Investment in Marine Energy Efficient Equipment

Indecon proposes that accelerated capital allowances should be permitted for expenditure on an expanded range of energy efficient equipment. It should be noted that this measure would probably not require any legislative changes. Indecon recommends that the list should be expanded to include investment in energy efficient marine equipment utilised by shipping companies, fishing vessels, aquaculture and sea food processors. It should also be available for energy efficient equipment used in ports/harbours. The strategic objective of this recommendation is to encourage further investment in green technology and equipment. The perceived benefits of this expansion are reduced energy use, enhancement of the environment and improved cost competitiveness. The specific areas for inclusion should be evaluated by SEAI in consultation with the sector.

The Accelerated Capital Allowances scheme administered by the SEAI applies to an agreed list of energy efficient equipment and is not open to sole traders or partnerships.¹⁴⁰ Consideration should be given to extending this to sole traders in the fishing sector given their predominance in this particular sector.

Consideration of Expanded Measures to Assist Marine Sector including Pilot Initiatives

Indecon believes that there is also merit in considering potential other measures to support the marine sector in future Budgets. These could include areas such as:

- ❑ Measures linked with participation on ship register with enhanced measures;
- ❑ Additional innovative ship financing schemes such as Norwegian KS Structure;
- ❑ R&D measures to assist seafood sectors;
- ❑ Income averaging for fishermen and measures to facilitate the timing of income tax payments by share fishermen;
- ❑ Consideration of potential changes to tonnage tax in light of any changes in competing countries;
- ❑ Review of VAT on personal marine safety equipment;
- ❑ Initiatives to facilitate decommissioning of unviable fishing vessels; and,
- ❑ Measures to assist marine tourism including marine sporting events and training.

It is useful to consider aspects of these two last proposals.

¹⁴⁰ http://www.seai.ie/Your_Business/Accelerated_Capital_Allowance/About_the_ACA/Is_your_company_eligible/

Decommissioning Incentives

Indecon notes that State Aid for Decommissioning is strictly limited under the State Aid regime for fisheries and aquaculture. Unlike most possible aid measures for the seafood sector, decommissioning is not allowed under the Fisheries Block Exemption Regulation (1388/2014). It is allowed under EMFF Regulation (508/2014), but its extent is capped under art 25(3). The cap translates to €19m approx. for decommissioning and engine replacement combined. DAFM has allowed for €16m decommissioning in the EMFF Operation Programme (and €3m engine replacement). The recommendation cannot result in additional state aid for decommissioning without specific state aid approval, which would be unlikely to succeed but could be used to reduce direct Exchequer costs.

Marine Tourism Measures

The issue of marine tourism initiatives merits particular consideration because of its regional employment potential. While marine tourism is outside the scope of the terms of reference as this was raised during our consultation programme we felt it appropriate to consider this issue.

This is in the context of the recently published Food Wise 2025 and “Promoting Ireland in New Markets”: Food Wise 2025 is the Report of the 2025 Agri Food Strategy Committee, a strategic plan for the development of agri-food sector over the next decade. There is a strong connection between this perspective of ‘Ireland’ and the Irish tourism and agri-food sectors. These two economic sectors are key indigenous industries driving export growth and they are interlinked and provide complementary benefits to each other. This complementarity could be capitalised on so that both sectors gain maximum benefits for the economy’ and the associated action point ‘Establish an interdepartmental group to develop complementary approaches across Government agencies to promote ‘Ireland’ in emerging distant markets and to promote synergies between Irish tourism, agri-food and culture.’

Of particular interest are tax measures which could encourage international marine sporting events and training activities, which would not otherwise take place in Ireland. Tax incentives aimed at such international mobile activities have been used extensively in Spain via the ‘Special Events Status’ incentives. These have been utilised by the Barcelona World Race and the Volvo Ocean Race. A detailed evaluation of potential targeted marine tourism incentives is outside the scope of this study but merits further consideration. Indecon, however, does not believe that the Spanish scheme would be appropriate as the levels of implied subsidy by the Exchequer are very high, however, an amended more targeted scheme with lower levels of incentives could be considered on a pilot basis. For example, instead of giving a 90% tax credit on relevant expenditure consideration could be given to permitting a double tax allowance on relevant expenditure. For a corporate this would imply an effective tax reduction of 25% of expenditures compared to the existing 12.5% currently available.

Ongoing Monitoring of Costs and Benefits

It is important when considering modifications to tax measures to ensure that the Exchequer costs of proposed measures are not disproportionate to the benefits. As such, Indecon recommends formal *ex post* cost-benefit analysis of the new measures after three years. In addition, any measure to be introduced will be subject to the Tax Expenditure Guidelines introduced by the Department of Finance in October 2014, which set out the approach to evaluating tax expenditures. The Department has indicated that schemes costing between €1 million and €10 million per annum should be assessed *ex ante* and criteria to measure the impact and efficiency of the schemes should

also be set out *ex ante*, to be examined *ex post*. Proposed schemes of higher cost per annum are subject to more detailed evaluation but it should be noted that any of the measures recommended by Indecon are likely to fall within the €1 million to €10 million range.

In addition, these Guidelines highlight the importance of collection of data associated with relevant measures Indecon recommends that the consideration be given to assigning the responsibility of collecting data on the benefits of the measure to the shipping sectors SEMRU/ IMDO, with the monitoring of costs of the measures to be undertaken by the Revenue Commissioners. This monitoring should include the tracking of the level of usage of the measures, the Exchequer costs and the resultant economic activity and benefits arising. An additional research programme is also needed to address the wider lack of data available for the purposes of formulating evidence-based policy in the marine sector.

8.8 Overall Estimate of Cost of Recommendations

The overall estimated cost of the proposed recommendations is outlined in Table 8.2 below. Indecon estimates that the total tax cost of the proposed measures would be €10 - 15 million per annum but this would depend on the specific design of any changes and more importantly on the level of take up. We, however, would strongly support ongoing monitoring of this.

Table 8.2: Estimated Overall Cost of Recommendations	
	€ million
Total Tax Cost of Proposed Recommendations	10 - 15
Source: Indecon analysis	

8.9 Conclusions

Indecon believes that the Marine Sector in Ireland has potential to expand but that the challenge in achieving the targets set should not be underestimated. We believe that measures to support the sector are needed. Indecon's research economists have identified targeted measures which we believe are likely to have positive benefit cost ratios and would enhance employment in this indigenous industry.

Annex 1 CSO Data on Employment in Some of the Marine Subsectors

Table A1.1: Persons Engaged in the Aquaculture Industry 2008-2014

	2008	2009	2010	2011	2012	2013	2014
Persons Engaged – Number	1,830	1,762	1,586	1,821	1,839	1,835	1,833

Source: CSO Census of Industrial Production, Industrial Enterprises (2008-2012). BIM Aquaculture Survey (2013-2014).

Table A1.2: Persons in Labour Force and at Work in Selected Marine-related Occupations

	Persons in Labour Force		Persons at Work	
	2006	2011	2006	2011
Fishing and related workers	1,717	1,544	1,408	1,102
Seafarers (merchant navy), barge and boat operatives	927	718	763	550
Stevedores and Dockers	527	384	451	284
Total	3,171	2,646	2,622	1,936

Source: CSO Census of Population.

Table A2.3: Persons Engaged in Water Transport Services

	2008	2009	2010	2011	2012
Persons Engaged (Number)	961	858	901	1,163	660

Source: CSO Annual Services Inquiry.