SHIPPING

THE UK IS OPEN FOR SHIPPING BUSINESS

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The UK is the top destination in Europe for foreign direct investment, with a business environment considered to be one of the most stable and beneficial in the world.

The UK has long had a positive attitude towards inward investment and is in the World Bank top ten economies for ease of doing business. Couple this with the existence of few restrictions on foreign investors, a favourable tax regime for non-domiciled UK residents (even after some recent changes) and with the corporation tax rate reducing to 17% from 2020, and it will be seen that the UK is an attractive place to do business. This status is even likely to be maintained post-Brexit as most of the UK tax rules are not dependent upon EU membership, and 99% of UK tax benefit reliefs will survive.

#1 FOREIGN DIRECT INVESTMENT

TOP 10 WORLD BANK ECONOMY

CORPORATION TAX

17%

BY 2020

In particular, the UK offers great opportunities for companies in the shipping sector, with the City of London being one of the world's leading financial centres and the home of various shipping organisations operated by key players in the industry including the Baltic Exchange, the International Chamber of Shipping and Intertanko-Intercargo. London is also the home of a number of leading law firms, banks and financiers dealing with the shipping sector.

It is no surprise, therefore, that more and more global shipping businesses are choosing to set up in the UK.

This booklet outlines the UK tax implications of such a decision for individuals and corporates as well as the accounting and reporting requirements for UK companies. In particular it emphasises the tax benefits for non-domiciled UK residents and for UK shipping companies, which add to the commercial advantages of doing business in the heart of a key shipping hub.

In summary:

- non-domiciled UK residents may elect to be taxed on their foreign income and capital gains by reference only to the amounts remitted to the UK, rather than by reference to the total amounts arising. Longer term residents who have elected for this 'remittance basis' are subject to an annual charge, and since 6 April 2017 some longterm residents have been deemed to be UK domiciled
- UK shipping companies that qualify for the UK tonnage tax regime are subject to corporation tax by reference to the net tonnage of the vessels they own or charter in, rather than by reference to trading profits. This results in a relatively low level of tax.

Further details are given in the remainder of this booklet.

BDO IN THE SHIPPING INDUSTRY

In our long association with the shipping industry, BDO has accumulated an unparalleled depth of knowledge and breadth of worldwide experience. That knowledge is demonstrated by the fact that the net book value of vessels audited by the BDO London office alone is in excess of US$10 billion.

TAX FOR INDIVIDUALS

INCOME TAX RATES

YEAR	TAXABLE INCOME	RATE
2019/20	£0 – £37,500(1,2)	20%(1,2)
	£37,501 to £150,000	40%
	Over £150,000	45%
2018/19	£0 to £34,500(1,3)	20%(1,2)
	£34,501 to £150,000	40%
	Over £150,000	45%

(1) Interest and certain other savings income up to £5,000 is taxable at 0% (2018/19: 0%) to the extent that other taxable income is less than £5,000 (2018/19: £5,000).

(2) For both 2019/20 and 2018/19 the first £2,000 of dividend income is tax-free (irrespective of the rate at which it would be taxed in the absence of this allowance). Thereafter it is taxable at 7.5% to the extent that total taxable income (including dividend income above and below £2,000) is less than £37,500 (2018/19: £34,500), and thereafter is taxable at 32.5% if total income is below £150,000 and 38.1% above that level.

PERSONAL ALLOWANCES

	2019/20	2018/19
Personal allowance	12,500[1]	£11,850[1]
Personal savings allowance		
20% taxpayers	£1,000	£1,000
40% taxpayers	£500	£500
45% taxpayers	£nil	£nil
Marriage allowance	£1,250[2]	£1,185[2]

[1] Personal allowance withdrawn at a rate of £1 of allowance for every £2 of income over £100,000 (2018/19: £100,000).

[2] Amount of personal allowance that can be transferred by an individual to a spouse provided neither is taxable at the 40% or 45% rate.

INDIVIDUALS – RESIDENCE

Whether an individual is resident or not in the UK is determined by the Statutory Residence Test. This generally provides significant certainty as to an individual's residence position, and in some circumstances can allow an individual to spend a reasonable amount of time in the UK without being resident. However, it can also require detailed records to be kept.

For an individual the UK tax year runs from 6 April to the following 5 April. Tax residence is determined solely by reference to the Statutory Residence Test; factors such as nationality, residence in another country, visas etc are irrelevant for this purpose.

The Statutory Resident Test comprises three parts and in certain areas distinguishes between an arriver (who is somebody who has not been resident in any of the three previous tax years) and a leaver (who is someone who has been resident in one or more of the three previous tax years). The test looks at days spent in the UK. Generally an individual will be treated as present in the UK on a given day if they are present at midnight at the end of the day.

The first test to be considered is whether or not an individual is automatically not UK resident. An individual will be automatically non-resident if:

- they are in the UK for less than 46 days in the tax year (arriver) or less than 16 days (leaver)
- they are in the UK less than 91 days and are in full-time work abroad throughout the tax year. Full-time work abroad is very prescriptively defined and is one of the areas where detailed record keeping is required.

If an individual is not automatically non-resident then the automatic UK residence test must be considered. An individual will be automatically resident in the UK if:

- they are present in the UK for 183 days or more in the tax year
- broadly, they have a home in the UK for 91 consecutive days or more where at least 30 days of that period falls within the tax year in question, they are present there at some time on at least 30 days in the tax year and they have no overseas home they are using significantly, or
- they work full-time in the UK. Again this is a complex test requiring detailed record keeping.

Where an individual is neither automatically UK non-resident nor resident then the Sufficient Ties Test must be considered. The more ties an individual has in the UK the less time they can spend here.

The ties to be considered are as follows:

- having family resident in the UK; this includes a spouse, civil partner, unmarried partner or minor children. There can be exceptions for children in full-time education in the UK
- having accommodation in the UK that is available to be used by them for a continuous period of at least 91 days in the tax year and spending at least one night there. This limit is extended to 16 nights when staying in the home of a close relative
- working in the UK for 40 or more days in a tax year for at least three hours a day
- having been present in the UK for more than 90 days in either of the two previous tax years
- being present in the UK in any tax year as much or more than they are present in any other single country. This tie applies to leavers only.

Once the number of ties has been established these are applied to the following day count table:

ARRIVERS

Days spent in the UK	Impact of ties on residence status
Fewer than 46 days	Always non-resident
46–90 days	Resident if 4 ties (otherwise not resident)
91–120 days	Resident if 3 or more ties (otherwise not resident)
121–182 days	Resident if 2 or more ties (otherwise not resident)
183 days or more	Always resident

LEAVERS

Days spent in the UK	Impact of ties on residence status
Fewer than 16 days	Always non-resident
16–45 days	Resident if 4 ties (otherwise not resident)
46–90 days	Resident if 3 or more ties (otherwise not resident)
91–120 days	Resident if 2 or more ties (otherwise not resident)
121–182 days	Resident if 1 or more ties (otherwise not resident)
183 days or more	Always resident

Normally, residence status is determined for a complete tax year. However, in certain circumstances the year can be split so that an individual is only treated as resident or non-resident from part way through the tax year. The rules dealing with this matter are particularly complex and the date on which tax residence starts may not be the same as the date on which the individual physically arrives in the UK.

It is important to take advice in the tax year prior to that in which it is intended that UK residence will commence.

INDIVIDUALS – NON-DOMS AND THE REMITTANCE BASIS

The UK offers a favourable tax regime for individuals who are resident but not domiciled in the UK, so called 'non-doms'.

An individual is, very broadly, domiciled in the country that constitutes their permanent home. At birth an individual acquires a 'domicile of origin', normally from their father. This may be displaced by a 'domicile of choice' but it is possible to live in the UK for a significant period without acquiring a UK domicile of choice, depending on all the circumstances.

Since 6 April 2017 a non-dom who has been resident in the UK for more than 15 out of the past 20 tax years is deemed to be domiciled in the UK for all tax purposes (i.e. from the beginning of year 16).

A UK resident is normally taxable on all income and capital gains, wherever they arise. In certain circumstances this can include income and gains of non-UK structures to which they are connected.

However, non-doms may elect to be taxed on their foreign income and capital gains by reference only to the amounts remitted to the UK, (the 'remittance basis'), rather than by reference to the total amounts arising. It should be noted that:

- UK income and gains remain taxable in full
- there are specific rules for employment income. Remuneration relating to duties performed in the UK, and essentially offshore employments connected to the UK, are generally taxable. Electing for the remittance basis has the effect that the individual loses the benefit of the income tax personal allowance. This may not be a significant issue because the allowance is in any case progressively withdrawn for individuals with taxable income in excess of £100,000. The capital gains tax annual exempt amount is also lost.

In addition, longer term residents have to pay an annual remittance basis charge. This is as follows and can be paid from offshore income and gains without generating a tax charge.

UK-resident in at least 7 of the previous 9 tax years	UK-resident in at least 12 of the previous 14 tax years
£30,000	**£60,000**

The decision on whether to elect for the remittance basis is made separately for each tax year, so it is possible to move between that basis and the normal 'arising basis'.

There are detailed rules as to what constitutes a remittance to the UK. A remittance includes:

- bringing funds to the UK
- bringing assets to the UK that have been bought offshore
- using a credit card in the UK where the account is settled out of offshore funds.

Remittances of amounts deriving from the individual but made by connected persons such as spouses, minor children and grandchildren, and certain offshore trusts and companies are within the scope of these rules.

It is important to be able to identify the source of a particular remittance. There will be no tax liability on remittances of 'capital' funds, such as income or gains that arose before the individual was UK resident, amounts held overseas that have already been taxed in the UK, or other capital sums such as certain gifts or inheritances. Amounts derived from other foreign income and gains will be taxable.

TAX FOR COMPANIES

UK TONNAGE TAX

The UK tonnage tax regime provides an alternative way of calculating taxable profits of companies operating qualifying ships that are strategically and commercially managed in the UK. The main points of the regime are set out below.

Taxable profits relating to the ship operating activities are calculated by reference to the net tonnage of the vessels a company owns or charters in, as follows:

NET TONNAGE OF SHIP (ROUNDED DOWN TO NEAREST 100)	DAILY PROFIT RATE PER 100 TONS
0 – 1,000	£0.60
1,000 – 10,000	£0.45
10,000 – 25,000	£0.30
Above 25,000	£0.15

This results in a relatively low rate of tax. For example, the tax liability for an oil tanker with a net tonnage of 32,495 would be £7,115 per annum, based on a corporation tax rate of 19%. Any profits not relating to the ship operating activities are subject to the normal UK corporation tax rules (see below).

To qualify for inclusion in the regime, a ship must be seagoing and over 100 gross tons, and must be used for:

- the carriage by sea of passengers
- the carriage by sea of cargo
- towage, salvage or other marine assistance carried out at sea
- transport by sea in connection with other services of a kind necessarily provided at sea.

Certain vessels are excluded from the regime, for example fishing vessels, harbour or river ferries, offshore installations etc.

A company qualifies if it operates qualifying ships, and those ships are strategically and commercially managed in the UK.

Operating a ship

A company is regarded as operating any ship owned by, or chartered to, the company, unless the ship is chartered out on bareboat charter terms other than to a member of the same group. A company is not, however, regarded as ceasing to operate a ship which is bareboat chartered out if it is temporarily surplus to the company's requirements and the term of the charter does not exceed three years.

Strategic and commercial management tests

Both tests must be satisfied. The strategic management test considers a high level of decision-making. The commercial management test considers the normal commercial operations and technical management. Both tests may also take into account additional factors such as the flag of the ships.

In certain circumstances a tonnage tax company which starts to operate a new vessel may be required to flag the vessel under an EU flag in order to ensure that the vessel qualifies for the regime. Broadly, each company or group is required to increase or at least maintain the proportion of its fleet which is flagged under an EU flag, unless the rules do not apply for the relevant financial year. There is no specific UK flag requirement (but see above regarding the strategic and commercial management tests).

Companies must commit to a minimum training obligation as a condition of electing into the UK tonnage tax regime.

Not more than 75% of the net tonnage of the qualifying ships operated can be chartered in otherwise than on bareboat charter terms.

A qualifying company or group can elect to enter into the regime. If an election is made, all qualifying companies within the group must be party to the election. There is a 12 month 'window' in which to make an election after a company or group first begins to carry on activities that qualify for UK tonnage tax. Elections will normally remain in force for ten years.

A renewal election may be made for the same company or group at any time while an existing election is in force, provided a noncompliance notice regarding the training requirement is not in force.

A non-mandatory system of clearances is operated and preliminary applications can be made at any time.

As tonnage tax is a low-tax regime, activities falling within the regime are 'ring-fenced' from the rest of the corporation tax system. The transfer pricing rules apply to transactions between tonnage tax and non-tonnage tax activities.

On the disposal of an asset that is or has been a tonnage tax asset, any capital gain or loss is exempt from tax for the period that the asset was a tonnage tax asset, on a time apportionment basis.

UK CORPORATION TAX RULES

The normal UK corporation tax rules apply to UK companies carrying on shipping activities which are not in the tonnage tax regime. This may apply to UK shipowning companies that have not elected into the regime, for example because their activities do not qualify for the UK tonnage tax regime, or to companies that carry on other shipping related activities, such as ship management or shipping advisory services. An overview of the relevant rules is below:

- a company will be tax resident in the UK if it is incorporated in the UK, or if it is centrally managed and controlled in the UK, unless a residence 'tie-breaker' clause in a double tax treaty applies. A UK tax resident company is subject to UK corporation tax on its worldwide profits and gains
- a non-UK resident company that trades in the UK through a UK permanent establishment will be liable to UK corporation tax on profits and gains attributable to the UK permanent establishment
- the rate of corporation tax is currently 19%. This is expected to reduce to 17% by April 2020
- capital expenditure which is regarded as plant and machinery will qualify for capital allowances (i.e. tax depreciation) at set rates
- the UK transfer pricing rules apply to most transactions between a UK resident company and a connected party (as defined). Such transactions must be on an arm's length basis for tax purposes. The onus is on the taxpayer to comply with these rules
- tax reliefs are available for research and development (R&D) expenditure. R&D is widely defined and can include for example software development.

DOUBLE TAX TREATIES

The UK has an extensive network of double tax treaties that may give rise to relief from overseas taxes.

Some jurisdictions, such as the US, impose 'freight taxes' on charter hire income received in relation to ships that visit ports in that jurisdiction. Depending on the circumstances, these charges may be reduced or eliminated if a double tax treaty applies.

PAYE AND NATIONAL INSURANCE CONTRIBUTIONS

Salaries of staff in the UK must be paid after deduction of income tax under the 'Pay As You Earn' (PAYE) system and of national insurance (social security) contributions. There will also be a liability to employers' national insurance contributions.

VAT

Although a large proportion of shipping and shipping-related activities are zero-rated in the UK, most UK companies carrying on such activities will be eligible (or required) to register for VAT. A benefit of VAT registration is that the company will be entitled to reclaim VAT incurred on expenditure associated with zero-rated activities.

ACCOUNTING & REPORTING

The UK accounting needs of your business will vary depending on its size, but as a director you will have certain legal responsibilities including the maintenance of accurate records and accounts.

PREPARATION AND FILING ACCOUNTS

All limited companies must submit accounts to the Registrar of Companies at Companies House. This must be done within nine months of the accounting reference date for a private company, and within six months for a public company. Any late filings will incur automatic penalties.

AUDIT

Companies are required to have an annual audit, unless they are exempt. There is an exemption for 'small ' companies. Small companies that are part of a 'non-small sized group' or of a group that includes a traded company or a company carrying on a regulated activity, can only qualify for exemption in very limited circumstances.

To qualify as 'small sized', a company or group must, broadly, meet at least two of the following conditions:

- that turnover is less than £10.2 million
- that the balance sheet total is not more than £5.1 million
- that the number of employees is 50 or fewer.

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