**Submission by**

**Australian Institute of Marine and Power Engineers**

**regarding**

**Tax Laws Amendment (Shipping Reform) Bill 2012**

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***Prepared by Martin Byrne, Assistant Federal Secretary***

The Australian Institute of Marine and Power Engineers (AIMPE) represents Australian marine engineers – and has done so since 1881. The main concern of the AIMPE regarding this Bill relates to the terms of Schedule 3 – Seafarers tax offset. AIMPE understands that the proposed legislation Tax Laws Amendment (Shipping Reform) Bill 2012 will not apply the tax offset in respect to periods of employment (and the income earned) during international voyages in ballast and that it will not apply the tax offset in respect to the periods of paid leave accrued by seafarers during international voyages. These two restrictions are very significant limitations on the effectiveness of the proposed scheme. AIMPE urges that the proposed legislation be altered so that the offset applies to all of the income earned during a taxation year by an Australian seafarer employed on a permanent basis on a qualifying international trading ship. The accepted international minimum period of engagement is 182 days. AIMPE would support the adoption of that threshold.

AIMPE addressed this question in 2008 in our submission to the House of Representatives Inquiry in to Coastal Shipping. The following position was part of our submission:

*Seafarers around the world are exempt from the payment of income tax – generally as long as they are on board a ship or ships for more than six months. By contrast Australian ship operators with Australian flag vessels in the coastal trades get no taxation relief. Likewise Australian seafarers pay income taxation in the same way as every other Australian worker.*

AIMPE submitted to the Committee:

*Further, to put Australian flag shipping on the same terms as foreign shipping with foreign seafarers it would require special taxation arrangements for Australian seafarers which would deal with the personal income tax burden that the permit and licensed ship operators can and do avoid.*

In 2009 AIMPE provided to the Shipping Policy Advisory Group the following summary of the taxation position for seafarers in international trades:

*AIMPE supports the amendment of s.23AG on the Income Tax Assessment Act to place Australian seafarers on the same footing as other Australians working overseas. This type of measure is a very common feature of maritime policy in developed nations.*

*In the United Kingdom seafarers are entitled to 100% deduction on their tax if they work on a ship for 182 days in a year. Most of the European countries which have significant maritime industries provide some similar support. The following is sourced from Nautilus UK – the union representing marine engineers and deck officers in the UK:*

1. *Belgium – tax and social security exemptions;*
2. *Denmark – reduced rates of income tax;*
3. *Finland – income tax refunds and reduced rates of social security contributions;*
4. *France – all social charges for seafarers reimbursed to employers;*
5. *Germany – tax-free bonuses for seafarers and 40% refunds to owners;*
6. *Greece – reduced rates of tax and social security contributions;*
7. *Ireland – special income tax allowances for seafarers and social cost refunds to owners;*
8. *Italy – full exemption of social contributions and no income tax requirements for seafarers on IIR second register ships;*
9. *Lithuania – zero income tax for seafarers;*
10. *Netherlands – taxes and social contributions not payable for personnel on Dutch-flagged ships if operating company is based in the country;*
11. *Norway – tax refunds and concessions for Norwegian-resident seafarers;*
12. *Portugal – no income tax or social contributions for seafarers on Portuguese second register ships;*
13. *Spain reduced rates of tax and social cost for seafarers on second register ships.*

The United Kingdom has a very strong merchant marine supported by a suite of Government policies. These include the seafarer taxation arrangements noted in 2009 – 100% deduction if out of the country for 182 days. This is effectively delivered to the individual seafarer and is not restricted to vessels of the UK flag. It is a very effective mechanism to encourage UK nationals to engage in maritime employment.

The schedule 3 Seafarer tax offset does not achieve the taxation outcome that applies to, for instance, UK seafarers. This is not a remote or distant comparison. There are at least 5 UK flag vessels which trade routinely on the Australian coast between Weipa and Gladstone carrying bauxite for the Rio Tinto group. These ships are regularly grant ‘restricted user flag’ permission by the Queensland Government to operate in that intrastate trade. One of the important cost factors that makes this arrangement attractive to the operator is that the seafarers have a major taxation advantage of their Australian counterparts.

The Weipa to Gladstone trade is the largest single coastal cargo flow by volume. 13 million tonnes of bauxite are shipped from Weipa to Gladstone each year. More and more of this task is being performed by UK flag ships with foreign seafarers who have the benefit of the UK tax laws.

In the international trades the situation is similar – except that the number of ships, the number of seafarers and the volumes of cargo are vastly greater. Over 800 million tonnes of cargo each year, 99% of it carried by foreign ships with foreign crews paying little or no personal tax.

There are 4 Australian flag ships crewed by Australian seafarers engaged in dedicated international trades. These are the LNG tankers which service the North West Shelf gas project. They trade between the WA North West and Japan.

Under the provisions of the Tax Laws Amendment (Shipping Reform) Bill 2012 the taxation benefit that will be delivered to the Australian ship owners/operators will be very different from the taxation benefit that effectively flows through to owners/operators of foreign flag LNG tankers in the same trade.

Unless the provisions of the Tax Laws Amendment (Shipping Reform) Bill 2012 are altered so that they apply to all of the income earned by seafarers employed in this trade – including ballast legs of voyages and including leave entitlements accrued during international voyages – then the tax measure will not place the Australian employer in anything like the same position as their competitors.

AIMPE’s support for seafarers’ taxation measures has had the objective of placing the Australian seafarer in international trades in the same position as seafarers from other countries who are also engaged in international trades.