KPMG

Tax alert

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Introduction to the Alternative Net Tonnage Basis of Taxation in Singapore

During Singapore's Budget 2024, an alternative basis of taxation was introduced for shipping entities to better align the Singapore shipping tax regime with common international practices. The relevant legislative amendments are appended in the Income Tax (Amendment) Bill No. 32/2024 under Section 34K of the Singapore Income Tax Act 1947 (SITA) which have been read and passed by Parliament on 15 October 2024, and pending President's assent before the Bill becomes law.

Based on the above, this Tax Alert aims to bring awareness of key features of the Alternative Net Tonnage Basis of Taxation (NTT basis), considerations for electing NTT basis and high-level comparison with other jurisdictions' NTT basis.

Overview of the NTT basis

Pending the enactment of Section 34K of the SITA, we have summarised the key features of the NTT basis below:

Eligibility

- Only entities under the following Maritime Sector Incentive (MSI) sub-schemes are eligible to elect for the NTT basis:
  - MSI – Shipping Enterprise (Singapore Registry of Ships) (MSI-SRS);
  - MSI – Approved International Shipping Enterprise (MSI-AIS); and
  - MSI – Maritime Leasing (Ship) [MSI-ML(Ship)].

Important note

- For all non-qualifying shipping entities and / or income, the existing tax treatment will continue to apply.
- The NTT basis does not apply to an entity that only operates one or more ships where only part of each ship was chartered to it.
- For avoidance of any doubt, the NTT basis is different from the ship registration fees (known as "annual tonnage tax") imposed by the Singapore Registry of Ships.

Existing MSI requirements

- The existing MSI requirements (e.g., minimum economic requirements, headcount, annual reporting requirements, etc., where applicable) that were agreed upon prior to the election of the NTT basis will continue to apply since the NTT basis only applies to entities under the relevant MSI sub-scheme.

Corporate Income Tax (CIT) matters under the NTT basis

- Foreign tax credit claim is available in Singapore in respect of foreign tax suffered on the same shipping income in foreign jurisdiction(s), subject to meeting stipulated conditions under the existing tax rules and terms and conditions of the relevant Double Taxation Agreement(s) (DTAs).

- Due care should be taken for the tax treatment for specific items upon transition into, during and transition out of the NTT basis [such as general provisions, unutilised capital allowances (CA) and tax losses, CA claims attributable to MSI trade]. For example, any unutilised tax loss items brought forward under MSI-AIS or MSI-ML(Ship) of the Year of Assessment (YA) in which the NTT basis applies cannot be utilised against any deemed income computed under the NTT basis or other income for that YA. The unutilised tax loss items can continue to be carried forward (subject to meeting conditions) in the income tax computation to be set-off against future taxable income upon expiry of the relevant MSI sub-scheme.

- For companies who derive incentivised and non-incentivised income and expenditure, the requirement to segregate such income, expenditure, and common expense / CA allocation remains a requirement for an electing entity.

- For the purposes of completing the tax return (Form C) for YA 2024, the NTT deemed income should be excluded. From June 2025, the Inland Revenue Authority of Singapore (IRAS) will raise the assessment for the NTT deemed income based on the declaration in the YA 2024 tax computation filed. For YA 2025 and after, the CIT payable under the NTT basis is to be declared in the tax return directly.

Computing CIT payable under the NTT basis

- Under the NTT basis, tax adjustments are no longer required for qualifying income. The electing entity will compute its tax base by reference to the net tonnage of its qualifying ships, a deemed daily income per net ton and the number of days that the ships were in operation during the basis period of the YA. Thereafter, the electing entity will subject the deemed income to tax at the prevailing CIT rate (currently 17%).

Steps:

1) Determine the **net tonnage of each qualifying ship[1] owned / operated** by the electing entity during the YA

   [1] Measure of the useful capacity of the ship as stated in a valid Certificate of Registry, Singapore Tonnage Certificate or an International Tonnage Certificate.

2) Determine whether the qualifying ship is a conventional or **green ship[2]**.

   [2] "Green ship" means a ship that adopts (i) engine capable of using zero-carbon / low-carbon content fuels with a conversion factor (CF) value lower than 2, or (ii) electric propulsion system capable of being powered by batteries or fuel cells (i.e., an electric ship).

3) Determine the **number of days[3] each qualifying ship was used by the electing entity to derive qualifying income** during the YA – **[A]**

   [3] Excludes the days where the ship is laid up (i.e. taken out of service).

4) Determine the **deemed daily income** for each ship, based on the rates as set out in the new Twelfth Schedule "Net Tonnage Basis of Taxation" of the SITA (reproduced in the table below) – **[B]**

   Determine the deemed income for each ship for the YA – **[A] x [B] = [C]**

Net tonnage of qualifying ship	Deemed income for each day that the qualifying ship is used by the electing entity to derive qualifying income	
	Conventional ship	Green ship
First 1k net tons (NT)	S$0.90 for each 100 NT*	S$0.60 for each 100 NT*
First 1k NT; Next 9k NT	S$9.00; S$0.60 for each 100 NT*	S$6.00; S$0.30 for each 100 NT*
First 10k NT; In excess of 10k NT	S$63; S$0.30 for each 100 NT*	S$33; S$0.30 for each 100 NT*

**Applied for each 100 NT (rounded down to the nearest 100 NT).*

5) Sum up the deemed income for each ship and multiply by the prevailing CIT rate – **Sum of [C] of all ships x 17%**

Working example

MSI-SRS entity owns and operates five (5) conventional Supramax bulk carriers, each with net tonnage of 18,880 NT, and the entity elects for NTT basis during YA 2024 (FY 2023). The electing entity has a December year-end, and the qualifying ships are in operation during the basis period from 1 January 2023 to 31 December 2023, i.e., 365 days. The entity does not derive any other income aside from qualifying income.

1) Deemed daily income = S$63 + S$0.30 x [(18,800 – 10,000) / 100] = S$89.40

2) Deemed income for each ship for YA 2024 = S$89.40 per day x 365 days = S$32,631.00

3) YA 2024 CIT payable under NTT basis = (S$32,631.00 per ship x 5 ships) x 17% = **S$27,736.35**

Our thoughts: Should you consider electing for NTT basis?

Currently, most Singapore companies in the shipping and offshore sectors enjoy tax exemption on qualifying shipping income under the relevant MSI sub-schemes. Nevertheless, the NTT basis may be a relevant consideration in the following circumstances:

1. Simplification of tax filing

- For a typical shipping set-up whereby one special purpose vehicle (SPV) owns one vessel which only derives qualifying shipping income under the applicable MSI sub-scheme, electing for the NTT basis may simplify the preparation of tax computations and tax return disclosures - please refer to the method of computing CIT payable under the NTT basis above.

- An assessment based on your company's specific facts and circumstances is recommended to assess whether the NTT basis will indeed help to reduce the amount of effort required on your tax compliance work.

2. Base Erosion and Profit Shifting (BEPS) Pillar Two

What is the impact to the Group's Qualifying Domestic Minimum Top-up Tax (QDMTT)?

- The Global Anti-Base Erosion (GloBE) rules provide an exhaustive list of International Shipping Income (ISI) and Qualified Ancillary Shipping Income (QAISI) under Article 3.3 which can be excluded from the GloBE Effective Tax Rate (ETR) calculation, subject to meeting certain conditions. Furthermore, given that the qualified QAISI amount is capped at 50% of the qualified ISI amount (on a jurisdictional basis), any excess income should be included in the ETR calculation.

Working example

Total shipping income of Constituent Entities (CEs) in Singapore = S$80m, of which qualified ISI = S$50m and QAISI = S$30m. As such, qualified QAISI is capped at S$25m (i.e., 50% of S$50m), and the excess amount of S$5m should be included in the GloBE ETR calculation.

- Compared to the above, Singapore's MSI sub-schemes provide a wider list of qualifying shipping activities / shipping-related support services, and do not impose specific quantitative thresholds on "incidental" (ancillary) income.

- With the above in mind, Multinational Enterprise (MNE) groups with qualifying tax exempt MSI income that do not fall squarely within the ISI and QAISI definition may be subject to a top-up-tax in Singapore. In this regard, the CIT paid under the NTT basis should meet the definition of covered taxes (i.e., taxes imposed in lieu of a generally applicable CIT) for the purposes of calculating GloBE ETR in Singapore, which may lead to a slight increase in the overall ETR in Singapore on a jurisdictional basis (albeit could be insignificant).

- A detailed analysis of the group's income structure is recommended to assess the BEPS implications and the NTT basis' potential contribution to the jurisdictional ETR.

Do the Subject-to-Tax rules (STTR) affect your intragroup payments?

- STTR is a treaty-based rule that applies to certain intragroup payments (e.g., interest, royalties, services, rental of equipment, etc.) from source / payer jurisdictions that are subject to adjusted nominal tax rates below 9% and allows such jurisdictions to apply additional tax (up to 9%) on such payments. Unlike GloBE rules, please note that the application of the STTR is not restricted to MNE groups with revenues of at least €750m.

- Given that Singapore has a robust network of tax treaties, the potential impact of STTR on the MNE group's intragroup transactions should be assessed. An analysis of the group related-party transactions and operating model should be carried out to ascertain whether the NTT basis may help mitigate any potential STTR exposure for the shipping and offshore groups as a result of certain exclusions.

3. Overseas tax issues

Are you facing challenges from overseas tax authorities due to the exemptions under Singapore's existing shipping tax regime?

- Due to the shipping tax exemptions available in Singapore, taxpayers that rely on tax treaty benefits may face challenges from certain foreign tax authorities due to certain articles in the relevant tax treaties.

- Also, foreign tax authorities may have enacted domestic tax rules to tackle cross border tax issues, such as hybrid mismatches, where the income is not taxed in one jurisdiction (e.g., due to tax incentives) and yet allowed a tax deduction in the other.

- An assessment should be undertaken to assess the current issues faced by the company from both the overseas and Singapore tax perspectives in order to obtain a holistic view on whether the NTT basis will help mitigate the issues mentioned above.

Election process

- An election for NTT basis may be made via the online form "Maritime Sector Incentive: Election Form for the Alternative Net Tonnage Basis of Taxation (NTT basis)". Upon successful submission, an auto-generated acknowledgement of receipt will be issued with the submitted information, including the effective date / YA of election to the electing entity. For MSI-AIS electing entities, an addendum to the MSI-AIS letter of award will also be issued.

- The NTT basis will be available for the entities under the abovementioned MSI sub-schemes with effect from YA 2024 and the NTT election may be made at any time during the entities' incentive tenure on or before the statutory CIT filing due date in order for the NTT basis to apply from that particular YA onwards.

- The NTT basis will be effective on the later of the electing entity's MSI status effective date or the first day of the YA for which the election is made.

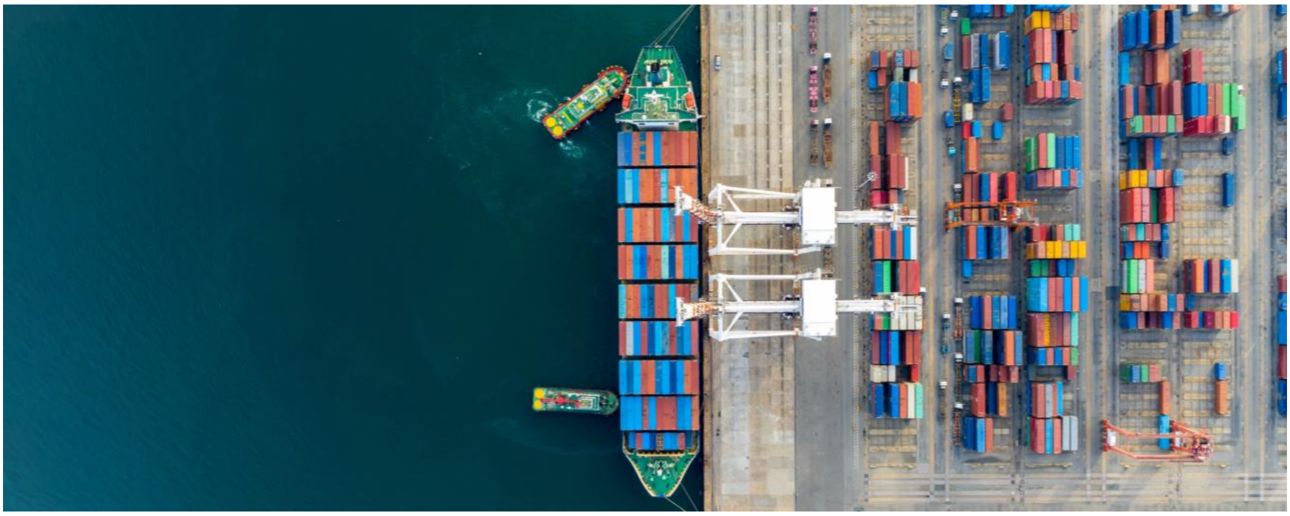
- An election once made is irrevocable (unless the electing entity exits the MSI sub-scheme) and will be 'locked-in" based on the applicable MSI tenure:

  - **MSI-SRS:** election is irrevocable for a period of 10 years or until the electing entity ceases to own / operate any Singapore ship, whichever is earlier. Re-election is allowed at the end of 10 years or upon re-entry into MSI-SRS.

  - **MSI-AIS:** election is irrevocable until expiry of the award (i.e., election lapses on the end date of the award). Re-election is allowed upon renewal of award.

  - **MSI-ML(Ship):** election is irrevocable until the exemption is no longer applicable. Re-election is allowed upon renewal of award (assuming MSI-ML is extended after 31 December 2026).

- To facilitate tracking, the electing entity should also insert a disclosure in the income tax computation for the YA when it first makes the election and all subsequent YAs in which the election is in effect.



High-level comparison of Singapore's NTT basis with other jurisdictions' tonnage tax (TT) regimes

As the NTT basis is newly introduced in Singapore, we have highlighted some key differences of Singapore's NTT basis vis-à-vis established TT regimes in other jurisdictions:

- Singapore's NTT basis is considered CIT, similar to the TT regimes in certain jurisdictions.
- The "lock in" period for a MSI-SRS electing entity is 10 years, similar to companies electing for TT regimes in certain jurisdictions. On the other hand, other electing entities are "locked-in" based on the applicable MSI tenure: (i) MSI-AIS is typically granted for 10-year period (subject to five-yearly review) and re-application available for 3 further incentive periods (i.e., maximum of 40 years currently); and (ii) MSI-ML is granted for 5-year period, (to be approved by the Minister of Finance by 31 December 2026), though the exemption may still be applicable beyond the expiry / withdrawal of the incentive, subject to meeting the relevant conditions.
- Election for NTT basis is on a per entity basis (though sometimes MSI-AIS and MSI-ML may be awarded on a group basis), which is unlike certain TT regimes which provide that all qualifying members (companies) of a group who operate or manage qualifying ships would be subsumed under the said regime.
- The qualifying shipping income under Singapore's qualifying MSI sub-schemes (on which the NTT basis is pegged to) are less stringent as it does not impose any specific thresholds for the qualifying activities undertaken by the electing entity. Notably, one of the established TT regime imposes specified thresholds on bareboat chartering activities in shipping and offshore sectors in order for the income to qualify under the TT regime.
- Shipping income derived from dredger, seismic ship and any ship used for offshore oil or gas, energy activity or mineral activity is considered as qualifying income of the electing entity. On the other hand, one of the established TT regime excludes income derived from mobile drilling rigs, floating production, storage and offloading vessels, etc., when related to the exploitation of mineral resources.
- Preferential rates for qualifying environmentally friendly ships (i.e., "green ships") is available under Singapore's NTT basis. Notably, this is not available in certain jurisdictions where the TT regimes are more established.
- Interest income earned by the electing entity from bank deposits is considered non-qualifying under the MSI sub-schemes, thus such income is taxable at the prevailing CIT rate. Such income continues to be excluded under the NTT basis. Notably, one of the TT regimes specifically covers profits arising from certain loan arrangements as qualifying TT profits.

While we understand that Singapore's NTT basis is meant to mirror the MSI sub-schemes, we are hoping that as the NTT basis evolves with time, other passive source income incidental to shipping income would be covered under the NTT basis to enhance its attractiveness.

How we can help

As a committed tax advisor to our clients, we welcome any opportunity to discuss the relevance of the above matters to your business.

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