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Government Considering Tonnage Tax

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COUNTRY DIGEST

Government Considering Tonnage Tax

Israel's ministries of Transportation and Finance are advancing new legislation designed to benefit Israeli shipping companies. Under the draft bill being circulated among government ministries, the company tax on shipping companies' income would be computed in accordance with the tonnage capacity of their vessels rather than the companies' actual income. The tonnage tax system has been adopted by many countries seeking to lure shipping companies. Indeed, 90 percent of the world's shipping fleet operates under a tonnage tax regime.

The draft law proposes that for tax purposes, shippers record NIS 5 of income a day for each 100 tons of capacity up to 1,000 tons. Thus, a vessel transporting 1,000 tons for 7 days would derive NIS 350 in income (5 x 10 x 7). Tonnage capacity above 1,000 tons and up to 10,000 tons would result in taxable income of NIS 4 per day for each 100 tons. Vessels carrying between 10,001 and 25,000 tons would have taxable income of NIS 2 per 100 tons, per day. Any additional tonnage would create taxable income of NIS 1 per 100 tons, per day.

Because vessels with larger cargo would generate less taxable income, the regime would lower the marginal tax rate for big shipping companies, thereby enhancing Israel's competitive edge.

Critics point out that Israel has only one large shipping company (Zim) and that the new law would in effect be a special gift to its owners. However, Zim suffered considerable losses in past years and paid no taxes, so the proposal's supporters can claim that it would actually increase taxes. ◆

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