

## FAQs for Tax Exemption of In-house Ship Management Income

(Note: Last updated in January 2022)

### **1) What is the tax exemption granted in respect of in-house ship management income about?**

*Answer:* Income derived by a shipping enterprise as defined under Section 13A of the Singapore Income Tax Act 1947 (“SITA 1947”) (“Section 13A company”) or a shipping enterprise approved under the Maritime Sector Incentive - Approved International Shipping Enterprise scheme (“MSI-AIS”) from the rendering of qualifying ship management services to qualifying related companies would be exempted from tax, subject to conditions.

### **2) What are the conditions for the tax exemption?**

*Answer:* The ship management income must be derived:

- a. by a Section 13A company, an MSI-AIS parent company or an MSI-AIS managing company, or with effect from 19 February 2020, an MSI-AIS sister company or an MSI-AIS local subsidiary, as described in FAQ no. 3; and
- b. from the rendering of qualifying ship management services (as listed in FAQ no. 4) to qualifying related companies as defined in FAQ no. 5.

### **3) Who is eligible for the tax exemption?**

*Answer:* The tax exemption is available to:

- A Section 13A company that owns or operates Singapore-flagged or foreign-flagged ships and whose income from such operation is exempt from tax under Section 13A of the SITA 1947<sup>1</sup>.
- An MSI-AIS parent company.
- An MSI-AIS managing company.
- An MSI-AIS sister company.
- An MSI-AIS local subsidiary.

### **4) What are the qualifying ship management services?**

*Answer:* Income derived from rendering any of the following ship management services will qualify for the tax exemption:

- a. Making a purchase or sale of the ship, or a decision regarding its ownership;
- b. Deciding on the flag and registry of the ship;

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<sup>1</sup> A Section 13A company that derives only ship management income will not qualify for the tax exemption.

- c. Sourcing for and deciding on financing for the acquisition of the ship;
- d. Awarding contracts, entering into alliances or deciding on pooling arrangements for the ship;
- e. Securing employment or cargo for the ship;
- f. Planning route and tonnage including the issuance of voyage instructions for the ship (tonnage refers to number of ships required for a particular route or voyage);
- g. Appointing ship manager, ship agent or stevedore;
- h. Collecting or arranging for the collection of freight, charter hire or other payments in exchange for the ship's use;
- i. Arranging insurance for the ship;
- j. Undertaking crew related matters e.g. providing qualified/competent crew, appointing crew manager, providing crew training and arranging crew insurance;
- k. Arranging or supervising drydocking, repairs, overhaul, alterations, maintenance or lay-up for the ship;
- l. Ensuring that the ship is adequately equipped with supplies, provisions, spares and stores and lubricating oil;
- m. Supervising the construction, conversion or registration of the ship;
- n. Liaising with the relevant competent authorities or bodies on ship safety and manning requirements and other similar matters.

With effect from 24 February 2015:

- o. Arranging for the provision of bunker fuel;
- p. Providing post-fixture services such as voyage estimating and accounting and calculation of hire, freight, demurrage and/or dispatch monies due from or due to the charterers;
- q. Arranging surveys;
- r. Providing technical expertise including undertaking basic design and front end engineering works;
- s. Appointing surveyors and technical consultants;
- t. Supervising a sale and physical delivery of the ship;
- u. Arranging sampling and testing of bunkers;
- v. Providing pre-purchase inspection;
- w. Ensuring (including auditing) internal, international, flag state and local port state requirements are complied with;
- x. Supervising the maintenance and general efficiency of the ship.

Qualifying ship management services do **NOT** include corporate services (e.g. administrative and accounting services).

For the purpose of Section 13A of the SITA 1947, these qualifying ship management services must be performed by a Section 13A company (as described in FAQ no. 3) in respect of a Singapore-flagged ship owned or operated by a qualifying related company (as set out in FAQ no. 5 – qualifying related company of a Section 13A company).

For the purpose of Section 13E of the SITA 1947, these qualifying ship management services must be performed by an MSI-AIS parent company, managing company, sister company or local subsidiary in respect of a ship owned or operated by a qualifying related company (as set out in FAQ no. 5 – qualifying related company of an MSI-AIS parent company, managing company, sister company or local subsidiary).

**5) Which entities are considered to be qualifying related company?**

Answer:

Company rendering qualifying ship management services	Qualifying related company
Section 13A company (as described in FAQ no. 3)	<p>A company: -</p> <p>i) at least 50% of the total number of issued ordinary shares of which are beneficially and directly owned by the Section 13A company; <b>and</b></p> <p>ii) that owns or operates a Singapore-flagged ship or a newbuilding that is to be flagged as a Singapore ship (in respect of which the qualifying ship management services are rendered).</p>
MSI-AIS parent company / MSI-AIS managing company / MSI-AIS local subsidiary / MSI-AIS sister company	<p>An entity approved under the same MSI-AIS group as an:</p> <ul style="list-style-type: none"> <li>- MSI-AIS parent company;</li> <li>- MSI-AIS managing company;</li> <li>- MSI-AIS sister company<sup>2</sup>;</li> <li>- MSI-AIS local subsidiary<sup>2</sup>; or</li> <li>- MSI-AIS approved network company;</li> </ul> <p><b>and</b></p> <p>owns or operates a Singapore-flagged or foreign-flagged ship or a newbuilding that is to be flagged as a Singapore or foreign ship (in respect of which the qualifying ship management services are rendered).</p>

**6) How do we apply for the tax exemption?**

Answer: There is no need to make a separate application for this tax exemption. If a taxpayer ascertains that it meets the conditions for the exemption listed in FAQ no. 2, it can report the ship management income it has derived from rendering qualifying ship management services under Section 13A of the SITA 1947 or the MSI-AIS award under Section 13E of the SITA 1947 when filing its income tax returns for the relevant Years of Assessment.

<sup>2</sup> If the MSI-AIS parent company / managing company/ sister company/ local subsidiary provides qualifying ship management services to a qualifying related company that only owns or operates Singapore-flagged ships, the MSI-AIS parent company / managing company / sister company / local subsidiary has to make an application for MSI-AIS local subsidiary / sister company (Singapore flagged vessels) status for the said company for the purpose of qualifying for this tax exemption.