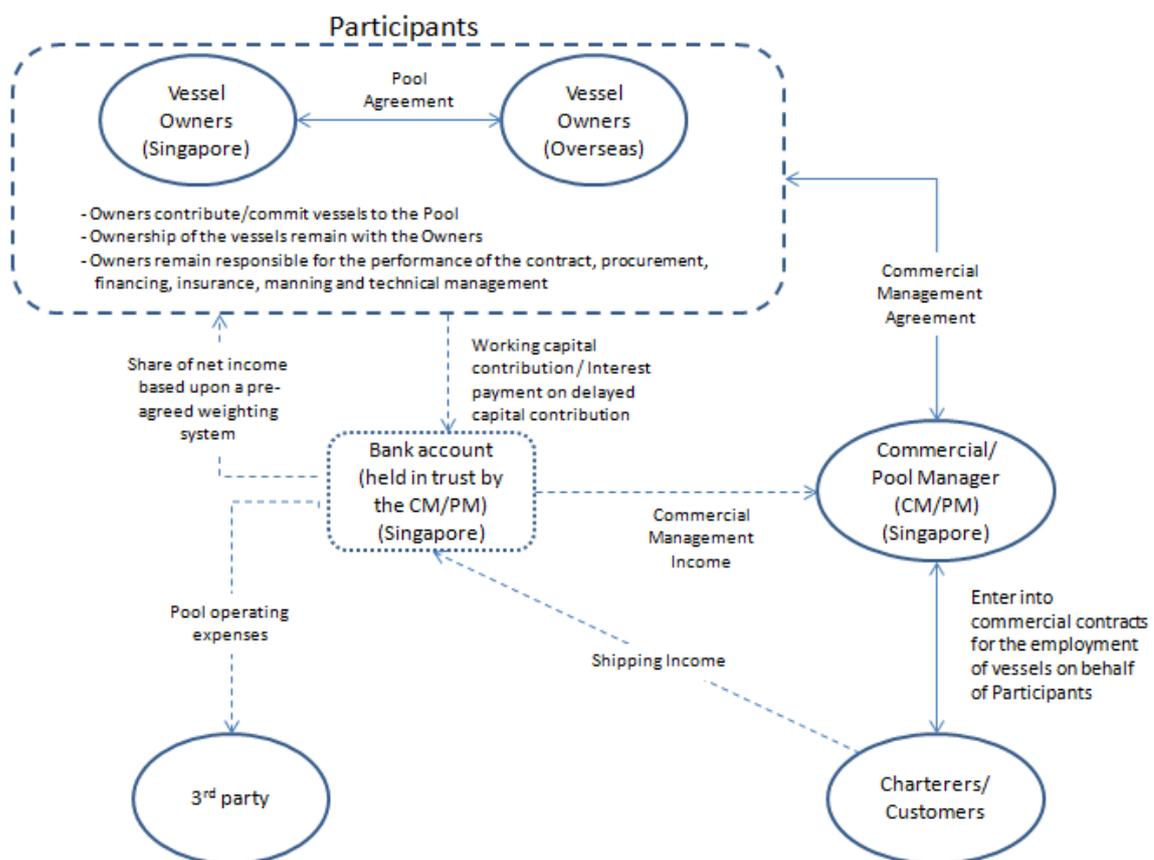


General guidelines for Shipping Pools

1. *What is a shipping pool?*

2. A shipping pool is an arrangement where a group of ship owners (Participants) pool their vessels together and place them under the care of an appointed commercial/pool manager. The Participants retain ownership of their vessels and continue to be responsible for the performance of the contracts, procurement, financing, insurance, manning and technical management of their respective vessels. The earnings of the vessels will be pooled together and distributed to the vessel owners according to a pre-agreed weighting system. ***What does a typical shipping pool arrangement entail?***

A Typical Shipping Pool Arrangement



3. What are the main tax issues and corresponding tax treatment arising from shipping pool arrangements?

Pool Company in Singapore

Under the ship pooling agreement (Pool Agreement), a Pool company may be incorporated in Singapore to undertake the commercial management of the Pool vessels and administration of the Pool in Singapore. The Pool company may carry out such duties itself or in turn enter into a commercial management agreement with a pool/commercial manager (PM/CM) for the latter to act as the commercial manager of the Pool vessels and also as an agent of the Pool company.

No.	Issues	Tax treatment
1	Is the income arising from the shipping pool arrangement (Pool income) taxable in the hands of the Pool company incorporated in Singapore?	<p>The Pool income will not be taxable in the hands of the Pool company if:</p> <ul style="list-style-type: none"> • It merely acts as an agent and trustee for the Participants and it is not the beneficial owner of the income arising from the pool arrangements; and • Income arising from the shipping pool arrangement accrue to the Participants (i.e. the Pool Participants are the beneficial owners of the income arising from the shipping pool arrangement and they are entitled to all the risks and rewards of the Pool operations). <p>The Pool company will be subject to tax in Singapore in respect of the remuneration it receives from the Pool for discharging its duties under the Pool Agreement.</p> <p>Any income from the Pool beneficially owned by the Participants will be subject to tax in the hands of the Participants according to existing tax rules applicable in Singapore.</p>

Participants

No.	Issues	Tax treatment
2	Shipping Income	
	<p>Singapore Participant <i>For the purpose of this guide, Singapore Participant refers to a shipping enterprise carrying on business in Singapore. The Singapore Participant can be a Singapore tax resident or a Singapore branch of a non-resident company.</i></p>	
a	<p>Is the net shipping income¹ distributed to a Singapore Participant (SP) from the Pool operation subject to tax in Singapore?</p>	<p>The SP will be taxed according to the existing provisions under sections 13A and 13E of the Singapore Income Tax Act 1947 (SITA 1947).</p> <p>If the contributed vessel is a Singapore flagged vessel, the net shipping income¹ distributed out of qualifying income will be exempted under section 13A of the SITA 1947.</p> <p>If the contributed vessel is a foreign flagged vessel, the net shipping income¹ distributed out of income derived from the uplift of freight from Singapore (excluding carriages arising solely from transshipment from Singapore or only within the limits of the port of Singapore) will be exempted under section 13A of the SITA 1947.</p> <p>If the contributed vessel is a foreign flagged vessel and the SP is an approved international shipping enterprise, the net shipping income¹ distributed out of qualifying income will be exempted under section 13E of the SITA 1947.</p>
b	<p>How is the share of the SP's net shipping income¹ to be tax-exempt under section 13A and/or section 13E of the SITA 1947 determined?</p>	<p>The amount for each vessel will be determined by applying the ratio of qualifying shipping income over the total shipping income derived by that vessel contributed by the SP to the Pool, to the distribution² made by the Pool to the SP in respect of that vessel.</p> <p>(Please see Annex for examples of computing the SP's share of exempt net shipping income¹).</p>

¹ Net shipping income refers to revenue derived from freight, hire or any other income derived from the employment of the Member vessels minus expenses (e.g. operating expenses, bunkers, port fees, etc) paid for the operation of the Member vessels, and excludes interest income.

² Excluding interest income, if any.

No.	Issues	Tax treatment
	<p><u>Overseas Participant</u></p> <p><i>Where a non-resident person carries on part of his business operations in Singapore, section 12(1) of the SITA 1947 deems the profits of the trade or business to be derived in Singapore if such profits are not directly attributable to the business operations carried on outside Singapore. Thus, the Overseas Participant's share of profits will be deemed to be derived from Singapore to the extent that the profits are not attributable to the shipping operations undertaken outside Singapore.</i></p> <p><i>For the purpose of this guide, Overseas Participant refers to a non-tax resident shipping enterprise with no shipping operations in Singapore, other than those undertaken through the PM/CM in Singapore under the Pool arrangement, if any.</i></p>	
c	<p>Is the net shipping income¹ distributed to an Overseas Participant (OP) from the Pool operation subject to tax in Singapore?</p>	<p><u><i>In the case where the PM/CM is based in Singapore:</i></u></p> <p>The OP is considered as having carried on part of its operations in Singapore by virtue of the functions and activities undertaken through the PM/CM in Singapore under the Pool arrangement. Accordingly, under section 12(1) of the SITA 1947, the gains or profits derived by the OP which are not directly attributable to the part of its operations carried on outside Singapore may be deemed to have been derived from Singapore.</p> <p>However, no further profits will be attributable to the OP's operations carried on in Singapore if:</p> <ul style="list-style-type: none"> i. The PM/CM is remunerated with an arm's length fee which takes into consideration the activities performed and risks assumed in Singapore in respect of the Pool operation; ii. The OP does not undertake any further activities or any other functions in Singapore apart from those that are undertaken by the PM/CM; and iii. The OP undertakes all the risks and rewards incidental to ownership of the vessels contributed/committed to the Pool in their home countries.

No.	Issues	Tax treatment
		<p>Otherwise, additional profits will be attributable to the activities of the OP in Singapore based on the facts of the case.</p> <p><i><u>In the case where the PM/CM is not based in Singapore:</u></i></p> <p>With the exception of paragraph (e) below, the OP's net shipping income¹ will not be regarded as being sourced in Singapore and will not be subject to tax in Singapore as the OP does not have any shipping operations in Singapore.</p>
d	<p>Is charter fee income derived by an OP from a Singapore customer subject to tax in Singapore?</p>	<p>Yes, if the PM/CM is based in Singapore. This is because the exemption of charter payments made to non-resident under section 13(1)(oa) of the SITA 1947 does not cover charter payments made to a permanent establishment (PE) in Singapore. As the PM/CM will habitually exercise an authority to conclude contracts on their behalf, the OP will be regarded as having a PE in Singapore.</p> <p>Nonetheless, so long as the OP does not do anything in Singapore over and above the activities that are undertaken through the PM/CM and provided the Comptroller of Income Tax ("CIT") is satisfied that the PM/CM is remunerated commercially on an arm's length basis for those activities undertaken on behalf of the Pool, no further amount of the charter fee income derived by the OP will be subject to tax in Singapore.</p>
e	<p>Are profits derived by an OP from uplifting of passengers, mail, livestock or goods from Singapore subject to tax in Singapore?</p>	<p>No, unless the carriage is only within the limits of the port of Singapore [please refer to section 12(2)/(2A) and section 13A(16) of the SITA 1947].</p>

No.	Issues	Tax treatment								
3	<p>Interest income <i>Interest income is taxable in Singapore if it is sourced in Singapore or received in Singapore from outside Singapore.</i></p>									
a	<p>Is the interest income derived on bank deposits placed in Singapore that is redistributed to the Participants taxable in Singapore?</p>	<p><u>Singapore participant:</u></p> <p>Yes, the interest income is taxable in the hands of the SP.</p> <p><u>Overseas participant, where the PM/CM is not based in Singapore:</u></p> <p>The interest is exempted from tax if it is derived from deposits placed in approved banks in Singapore [please refer to section 13(1)(t) of the SITA 1947].</p> <p><u>Overseas participant, where the PM/CM is based in Singapore:</u></p> <p>Yes, the interest income is taxable³ in the hands of the OP. The OP will not be able to avail itself to the exemption provided under section 13(1)(ta) of the SITA 1947 as it has a PE in Singapore and the funds, or part thereof, used to make the deposit will be obtained from the operation of the PE.</p>								
b	<p>Is the interest income derived on overseas bank deposits, which is redistributed to Participants, taxable in Singapore?</p>	<p>The taxability of the interest income is summarised as follows:</p> <table border="1" data-bbox="916 1308 1390 1774"> <thead> <tr> <th data-bbox="916 1308 1066 1384" rowspan="2">PM/CM based:</th> <th colspan="2" data-bbox="1066 1308 1390 1346">Paid to:</th> </tr> <tr> <th data-bbox="1066 1346 1235 1384">SP</th> <th data-bbox="1235 1346 1390 1384">OP</th> </tr> </thead> <tbody> <tr> <td data-bbox="916 1384 1066 1774">in Singapore</td> <td data-bbox="1066 1384 1235 1774">Taxable on remittance⁴</td> <td data-bbox="1235 1384 1390 1774">Not taxable, unless the amount is remitted by the PM/CM prior to distribution⁵.</td> </tr> </tbody> </table>	PM/CM based:	Paid to:		SP	OP	in Singapore	Taxable on remittance ⁴	Not taxable, unless the amount is remitted by the PM/CM prior to distribution ⁵ .
PM/CM based:	Paid to:									
	SP	OP								
in Singapore	Taxable on remittance ⁴	Not taxable, unless the amount is remitted by the PM/CM prior to distribution ⁵ .								

³ Please refer to issue 7(a) on the Singapore Withholding Tax Obligations of the PM/CM in Singapore.

⁴ Including amount remitted by PM/CM prior to the distribution to the Participants.

⁵ Please refer to issue 7(b) on the Singapore Withholding Tax Obligations of the PM/CM in Singapore

No.	Issues	Tax treatment																			
		Overseas		Taxable on remittance	Not taxable																
c	Is the interest income derived on late payment of contributed capital that is redistributed to the Participants taxable in Singapore?	<p>Where the delayed working capital contribution is expressly set out in the Pool Agreement as a form of a loan to the Pool operation, the taxability of the interest income derived on late payment of contributed capital is summarised as follows:</p> <table border="1" data-bbox="916 689 1385 1126"> <thead> <tr> <th colspan="2" data-bbox="916 689 1054 723">Interest</th> <th colspan="2" data-bbox="1054 689 1385 723">Paid to</th> </tr> <tr> <td colspan="2" data-bbox="916 723 1054 763"></td> <th data-bbox="1054 723 1225 763">SP</th> <th data-bbox="1225 723 1385 763">OP</th> </tr> </thead> <tbody> <tr> <td data-bbox="916 763 991 1126">Paid by</td> <td data-bbox="991 763 1054 1055">SP</td> <td data-bbox="1054 763 1225 1055">Taxable</td> <td data-bbox="1225 763 1385 1055">Taxable [S12(6) of the SITA 1947] Please refer to issue 7(c) below.</td> </tr> <tr> <td data-bbox="916 1055 991 1126"></td> <td data-bbox="991 1055 1054 1126">OP</td> <td data-bbox="1054 1055 1225 1126">Taxable on remittance</td> <td data-bbox="1225 1055 1385 1126">Not taxable</td> </tr> </tbody> </table> <p>Otherwise, the interest income arising from late working capital contribution forms part of the shipping income and not interest income received on account of a loan arrangement. The tax treatment will then follow that of the net shipping income¹ distributed to the SP and OP set out in issues 2(a) to 2(c) above.</p>				Interest		Paid to				SP	OP	Paid by	SP	Taxable	Taxable [S12(6) of the SITA 1947] Please refer to issue 7(c) below.		OP	Taxable on remittance	Not taxable
Interest		Paid to																			
		SP	OP																		
Paid by	SP	Taxable	Taxable [S12(6) of the SITA 1947] Please refer to issue 7(c) below.																		
	OP	Taxable on remittance	Not taxable																		

Pool/Commercial Manager in Singapore

No.	Issues	Tax treatment
4.	Is the working capital contributed by Participants subject to tax in the hands of the PM/CM?	No, the working capital will not be taxed in the hands of the PM/CM as it is not income of the PM/CM.
5.	Is the net shipping income ¹ from the Pool operation subject to tax in the hands of the PM/CM?	No, the net shipping income ¹ will not be taxed in the hands of the PM/CM if it merely acts as an agent and trustee for the Participants and is entitled to only a fee for the services performed to the Participants in accordance with the Pool Agreement.
6.	Is the remuneration received/receivable by the PM/CM from the services rendered in relation to the Pool operation subject to tax in Singapore?	Yes, the remuneration received/receivable will be subject to tax in Singapore in the hands of the PM/CM, in accordance with the existing tax rules applicable in Singapore.

Singapore Withholding Tax Obligations of the PM/CM in Singapore

No.	Issues	Tax treatment
7	Interest payments	
a	The Pool may receive interest income on the bank deposits placed in Singapore and this interest income will be redistributed to the Participants. Does the PM/CM need to withhold tax when redistributing the interest income to OPs?	Yes, as an agent of the OP, the PM/CM will need to withhold tax when redistributing the interest income to the OPs, unless the tax on the interest income has already been assessed and paid. In this regard, the PM/CM is to inform IRAS when it acts as a PM/CM for any shipping pool arrangement for the CIT to appoint the PM/CM as the agent of the OP under section 57 of the SITA 1947.
b.	The Pool may receive interest income on the bank deposits placed overseas and remit this interest income prior to redistribution to the Participants. Does the PM/CM need to withhold tax when redistributing the interest income to OPs?	Yes, as an agent of the OP, the PM/CM will need to withhold tax when redistributing the interest income to the OPs, unless the tax on the interest income has already been assessed and paid. In this regard, the PM/CM is to inform IRAS when it acts as a PM/CM for any shipping pool arrangement for the CIT to appoint the PM/CM as the agent of the OP under section 57 of the SITA 1947.

c	<p>Participants may be required to contribute funds to the PM/CM for working capital purpose within stipulated timeframes and late payment interest may be imposed for late contributions. Such interest income will eventually be redistributed to all the Participants. Does the PM/CM need to withhold tax when redistributing the interest income to OPs?</p>	<p>Where the delayed working capital contribution is expressly set out in the Pool Agreement as a form of a loan to the Pool operation, the PM/CM will need to withhold tax when distributing the interest income to the OPs, unless the tax on the interest income has already been assessed and paid. In this regard, the PM/CM is to inform IRAS when it acts as a PM/CM for any shipping pool arrangement for the CIT to appoint the PM/CM as the agent of the OP under section 57 of the SITA 1947.</p> <p>Where the form of delayed working capital contribution is not expressly set out in the Pool Agreement as a form of a loan to the Pool operation, the PM/CM does not need to withhold tax when distributing the income to the OPs as such payment will be regarded as part of the shipping income. However, in situation where additional profits will be attributable to the activities of the OP in Singapore [see issue 2(c) for details], the PM/CM is to inform IRAS when it acts as a PM/CM for any shipping pool arrangement for the CIT to appoint the PM/CM as the agent of the OP under section 57 of the SITA 1947.</p>
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Singapore Withholding Tax Obligations of the Pool's customers

No.	Issues	Tax treatment
8	<p>Does a Singapore customer of the Pool need to withhold tax on charter fee payments that may be redistributed to an OP?</p>	<p>No, tax does not need to be withheld on charter payments made to non-resident OPs [please refer to section 45A(2D) of the SITA 1947].</p>

Annex

Examples of computing Singapore Participant's share of exempt net shipping income

	Singapore ship	Foreign ship contributed by overseas participant	Total
Key entitlement	1	2	3
	\$	\$	\$
Freight- International waters	10,000	60,000	70,000
Freight -within Singapore waters (not exempt under S13A of the SITA 1947)	20,000	30,000	50,000
Freight (Int'l waters)- uplift from Singapore (exempt under S13A of the SITA 1947)	0	30,000	30,000
Total	30,000	120,000	150,000
Less: Pool expenses			(30,000)
Net Pool income			120,000
Distribution ⁶	40,000	80,000	120,000
SP's share of pool income that is tax-exempt* (i.e. 10,000/30,000 x 40,000)	13,333		

	Foreign ship	Foreign ship contributed by overseas participant	Total
Key entitlement	1	2	3
Freight- International waters	10,000	60,000	70,000
Freight -within Singapore waters	0	30,000	30,000
Freight (Int'l waters)- uplift from Singapore (exempt under S13A of the SITA 1947)	20,000	30,000	50,000
Total	30,000	120,000	150,000
Less: Pool expenses			(30,000)
Net Pool income			120,000
Distribution ⁶	40,000	80,000	120,000

⁶ Distribution to the Participants is made according to a pre-agreed sharing ratio (i.e. reflected as "key entitlement" in the Examples)

SP's share of pool income that is tax-exempt* (i.e. 20,000/30,000 x 40,000)	26,667
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Example 3: Singapore Participant (an AISE) contributing a Singapore flagged ship and a foreign flagged ship

	Singapore ship	Foreign ship	Foreign ship contributed by overseas participant	Total
Key entitlement	1	2	3	6
Freight- International waters	10,000	60,000	90,000	160,000
Freight -within Singapore waters (not tax-exempt under S13A/S13E of the SITA 1947)	20,000	30,000	30,000	80,000
Freight (Int'l waters)- uplift from Singapore (exempt under S13E of the SITA 1947)	0	30,000	30,000	60,000
Total	<u>30,000</u>	<u>120,000</u>	<u>150,000</u>	300,000
Less: Pool expenses				<u>(30,000)</u>
Net Pool income				<u>270,000</u>
Distribution ⁶	45,000	90,000	135,000	270,000
SP's share of pool income that is tax- exempt*	15,000 (10,000/30,000 X45,000)	67,500 [(60,000+30,000)/ 120,000X 90,000]		

* computed based on ratio of qualifying income of the vessel contributed by the SP over the total income of the vessel contributed by the SP to the Pool