



Parliamentary Brief

Seafarer Tax Offset

PURPOSE OF BRIEFING

To seek the support of parliamentarians to oppose the repeal of the Seafarer Tax Offset which is contained in the Tax and Superannuation Laws Amendment (2014 Measures No. 5) Bill 2014.

BACKGROUND

The Government's decision to repeal of the Seafarer Tax Offset was announced in the 2014 Budget, to take effect from 1 July 2015.

The Seafarer Tax Offset was introduced from 1 July 2012 on commencement of the *Tax Laws Amendment (Shipping Reform) Act 2012*, which was one element of a shipping reform legislative package introduced by the then Labor Government. *The Tax Laws Amendment (Shipping Reform) Act 2012* (Schedule 3 - Seafarer tax offset) amended the *Income Tax Assessment Act 1997* by providing for an eligible company to obtain a refundable tax offset for withholding payments made to Australian seafarers for overseas voyages if:

- The voyage is made by a vessel for which the company, or another entity, has a certificate under the *Shipping Reform (Tax Incentives) Act 2012*; and
- The company employs or engages the seafarer on such voyages for at least 91 days in the income year. Time off work for training is counted as part of the eligibility, which encourages the training of Australian seafarers.

The object of this provision is to stimulate opportunities for Australian seafarers to be employed or engaged on overseas voyages and to acquire maritime skills.

This tax incentive has been taken up by 6 Australian companies over 2012/13 and 2013/14 according to data on Notices issued under the *Shipping Reform (Tax Incentives) Act 2012*, as published by the Department of Infrastructure and Regional Development.

The Government claims that the low level of claims or take-up for the Seafarer Tax Offset indicates that it has not achieved its policy intent and has not been an effective stimulant for the employment of Australian seafarers on overseas voyages.

This is incorrect, because the apparent low take up is simply a factor of the small number of eligible employers due to the small number of Australian ships trading internationally.

The Seafarer Tax Offset is important to those companies that have taken advantage of the measure to ensure the ongoing competitiveness of Australian ship operators in a global market in circumstances where all other shipowning countries also have such a measure in place. All other seafaring nations provide such a tax incentive for employers of seafarers – it is largely a tax free industry in international terms.

This taxation measure was one of an integrated package of taxation measures which accompanied the coastal ship licensing system and establishment of an Australian International Shipping Register, that together made up the shipping reform package.

The other three taxation measures are:

- An income tax exemption (ITE) for operators of Australian registered eligible vessels on qualifying shipping income
- Accelerated Depreciation and rollover relief for owners of Australian registered eligible vessels
- An exemption from royalty withholding tax for foreign owners of eligible vessels leased under a bareboat or demise charter to an Australian operator.

These three measures remain in place. Those companies eligible for the Seafarer Tax Offset must also have a training plan in place as specified in the *Shipping Reform (Tax Incentives) Act 2012*. The associated Shipping Reform (Tax Incentives) Regulation 2012 require that the company that receives the Seafarer Tax Offset must ensure that, for each vessel operated by the entity, training is undertaken by at least one person (the trainee) in each of the following three categories:

- Engineer officer training;
- Deck officer training;
- Integrated rating and steward training.

WHY REPEAL OF THE TAX OFFSET SHOULD BE OPPOSED

1. It is premature to abolish one of a package of four taxation incentives to support Australian shipping in advance of a Government decision on shipping reform being considered in response to stakeholder comments on Minister Truss's Options Paper on the regulation of coastal shipping in Australia. What the industry requires is policy certainty and in particular certainty about passage of any consequential amending legislation that arises from Government consideration of responses to the Minister's Options Paper.

2. The Seafarer Tax Offset is consistent with the rules for exempting certain overseas employment income in s23GA of the Income Tax Assessment Act and addresses an anomaly whereby up until July 2012, service on a ship in international waters was not considered to be foreign service because international waters do not form part of the territory of a foreign country, thereby creating an anomaly for this category of overseas employment. Notwithstanding reforms to the s23AG provisions in 2009, seafaring is a truly international occupation, and employers of Australian national seafarers should retain access to the tax offset to ensure Australian shipping remains internationally competitive.

3. The tax measure is an important part of a package of measures to help ensure the competitiveness of Australian shipping in a global marketplace where all other seafaring nations provide a similar tax exemption.

4. The Budget saving is extremely modest with the Budget papers saying that in underlying cash terms, the saving is \$8.0 million over the 4 year forward estimates period, or \$2M per annum (see P212 of Budget Paper No. 2 of 2014-15).

5. It helps stimulate the training of Australian seafarers, which remains an important outcome given that Australia is such a major shipping nation.

