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BRIEFING

UK TONNAGE TAX – BREXIT: ONE LESS PROBLEM TO SOLVE MARCH 2019

- TONNAGE TAX FLAGGING RULES TO BE DISAPPLIED FOR COMING YEAR
- HELPFUL ANNOUNCEMENT IN THE EVENT OF A "NO DEAL" BREXIT



With near perfect timing, the administrators of UK tonnage tax have cleverly and conveniently solved one potential Brexit problem – the tonnage tax flagging rules which can require new ships to be registered on an EU or EEA flag are not to apply for the next financial year.

This move solves a potential Brexit headache. Without another legislative change, the UK's tonnage tax rules could, oddly, have required new ships entering the regime to fly an EU or EEA flag which, in a "no deal" scenario would have excluded the UK flag from our own flagging rules.

The HMRC tonnage tax team were aware of this Brexit-oddity and had other plans to solve it if needed. The announcement that the percentage of the tonnage tax fleet that is "community-flagged" has not decreased, such that the flagging rules can be disapplied for the coming year, happily side-steps that issue, for now.

Many UK shipping companies have covenants in their financing documents, or even financing structures, such as Spanish leases, which require their vessels to fly an EU flag and so have already taken pre-emptive action to move vessels from the UK register and have them re-registered elsewhere in the EU (with the Cyprus register a popular destination).

Whilst Brexit uncertainty is clearly unhelpful to shipping businesses, UK tonnage tax should survive whatever Brexit-outcome materialises. HMRC, the Government and the shipping industry are all keen to ensure its continued success and there is an ongoing dialogue to explore ways to both safeguard and improve the regime.

Our "short guide to UK tonnage tax" can be found [here](#).

FOR MORE INFORMATION

Should you like to discuss any of the matters raised in this briefing, please speak with Richard Stephens below or any of your regular contacts at Watson Farley & Williams.



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Richard is a Partner at WFW and the head of the London Tax group. Richard is a member of the Chamber of Shipping's Tax and Economic Committee and was a member of the UK Government's Maritime Growth Study Industry Advisory Group in 2015. WFW has been active in tonnage tax since it was first proposed in the 1990s and has advised approximately one third of all participants in the regime on entry, participation and, on occasion, exit from tonnage tax.

Publication code number: Europe\64023561v1 © Watson Farley & Williams 2019

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