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Debunking the Greek Shipping fallacies

Shipping

PRECISE. PROVEN. PERFORMANCE.

In today's fast-paced world of information oversupply, where news spread like wildfire and people simply do not have the time to fully analyze what they are bombarded with by the media, what seems to matter most is the headlines and the impressions they create, rather than the underlying facts. Greek ship-owners have for many years been victims of this superficial news coverage. Stereotypes are very strong, cultivated by years of inaccurate portrayal in the media, films and TV series. Inability to explain Greek ship-owners' world-class success combined with an eagerness to find excuses for own failures and a touch of jealousy make a perfect recipe for many to target them and smear them with false general accusations, such as 'tax avoidance'.

The susceptibility of the shipping sector to headline news creation has also been abused many times by politicians in Greece. However, history has shown that as soon as they come to power and study the actual facts, they come to realize the real benefits of Greek shipping on the country's economy and stop their criticism. Nonetheless, the reputational damage has already been done. This tried and tested method was unfortunately used recently by Mr. Wolfgang Schauble, the German finance minister and arguably one of the most influential persons in Europe, in order to make a political point regarding the apparent failure of the Greek government to fulfil its promises. Maybe Mr. Schauble had no intention to directly attack the Greek ship-owners, but his methods are no different to those of other politicians who have repeatedly used Greek shipping and the attention-grabbing headlines they are capable of creating, to make a point, without caring about the actual facts. Comments like these however, no matter how politically useful in the short-run they may be for the person making them, are particularly harmful to the shipping industry, both Greek but also European, given that Greek shipping accounts for approximately 50% of European.

But what are the facts?

What is myth and what is truth?

Shipping income

Similar to other countries with a sizeable shipping industry, vessels managed in Greece are taxed in accordance with the "tonnage tax" regime, where corporate income taxes are computed on the basis of the vessel's size and age and not on the basis of financial results. This tax is levied irrespective of whether the company makes a profit or a loss in the year. Compared to the tonnage tax regimes of other countries however the Greek tonnage tax system is one of the most onerous in the world and is unique as Greece is the only country that levies this tax on all ships managed in its jurisdiction irrespective of their flag of registration.

On top of that, Greek ship-owners have agreed to a voluntary doubling of that tax in order to contribute more to the State revenues. This is a fact that has made the business of ship management in Greece extremely uncompetitive and unattractive compared to other shipping hubs. Many

non-Greek owners do not see any real benefit that counterbalances paying additional taxation and have moved their vessels to other more competitive jurisdictions, mainly outside the EU.

Management income

Income derived from the services of ship management is not taxed as it is deemed to be derived abroad. This privilege is granted by many other jurisdictions to ship management companies in order to attract them and secure the benefits of job creation by these companies which are not just the jobs that the management company creates by itself but the secondary services demanded by and provided to these management companies by a vast range of land based companies which in turn are taxed on the profits they generate. Lawyers, suppliers, bankers, accountants, insurers, travel agents all derive their income due to the existence of these management companies and therefore help generate the much-needed tax revenue in addition to the jobs that they create themselves.

It should be noted that the vast majority of Greek based management companies operate on a zero-profit basis as they are ancillary to the operation of the fleet and are very rarely run as a profit center by their owners. Subjecting them therefore to the general tax regime would not bring any significant additional tax income to the Greek State and would make them totally uncompetitive compared to other jurisdictions. It is certain that the Greek State would in total lose more in tax revenues and social security contributions from the much-reduced taxable profits of service providers, compared to the tax income that would allegedly be generated from taxing management companies.

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Personal tax

This is the main thorn in the discussions and this is what most people have in mind when they say that shipping is 'tax free'. It will take many pages of analysis to explain the historic and economic background of this policy which is way beyond the scope of this article but in broad terms, in Greece all income earned by a physical person which is derived from a ship, legally managed in Greece and has therefore paid the Greek tonnage tax, is considered to have been fully taxed at the corporate level and therefore no additional tax is imposed.

Up until 2008, dividends were taxed at 0% at the physical person level, irrespective of the industry they were derived from as they were deemed to be distributed out of taxed (at the corporate level) profits. The whole issue that some people call "preferential treatment" only occurred after the tax laws were changed in order to levy additional taxes on dividends and this is where the provisions of L27 and the Constitution kicked in and exempted dividends declared by Greek managed ship owning companies.

Given the recession and the fact that the vast majority of businesses no longer make, let alone distribute, profits it is questionable whether the Greek state collects the expected dividend tax from its land based industries to an extent that outweighs the damage done to the reputation and unavoidably to the core of its most successful industry. The Greek State therefore should seriously consider to altogether abolish the dividend tax and restore the pre 2008 status quo.

We need to clarify however that this exemption is granted to this specific source of income and not to the physical person as many people wrongfully interpret the phrase "Ship-owners do not pay tax!" Indeed ship owners like all taxpayers are subject to tax on all of their worldwide non-exempt income as described above. In addition, dividend income derived from shipping is not exempt from the 'solidarity tax' which can reach up to 10%.

So where do all this leave us?

Greek Shipping is special and taxed in a special way, which takes into account the industry's unique characteristics and is in line with the shipping regimes in the rest of the world. It is simply untrue and unfair to claim that Greek ship owners are not tax transparent, especially since shipping is the only interest group in Greece that has voluntarily given up vested rights during the financial crisis in order to contribute to the tax revenues. This is by contrast to other groups, who during the years of the crisis, have tried to protect their privileges to the detriment of the rest of the Greek society. Taxation of shipping in Greece is a lot heavier than in any other major competitive jurisdiction and this is also demonstrated by the fact that foreign companies or owners do not find Greece attractive and they have not relocated here, despite the fact that Greece has the largest concentration of owners in the world.

Shipping is one of Greece's major industries and contributes greatly to its GDP, not just through the importation of shipping income, but indirectly, given that a large number of land-based industries and

services revolve around it. It is also one of Greece's main sources of investments as ship-owners invest heavily in land-based businesses such as hotels and renewables, using funds earned in shipping.

Greek shipping contributes immensely to society also through substantial charity work undertaken, either as a Union or on an individual basis. As most of this work is not recognized however since the shipping community does not generally like publicity, it is impossible to quantify it. If we tried to gross up the amounts given to charity and compared them to taxable income we would reach a figure that would be staggering and way beyond what any other sector contributes to the tax coffers.

It is absolutely wrong, short sighted and politically biased to measure the benefits of shipping just in terms of tax revenues. To maximize tax revenues should not be the holy grail of public policy, neither an end in itself. The ultimate goal should always be the prosperity of the society. In Greece, shipping has always played a major role towards the achievement of that end and we should all try to find ways to preserve and increase its importance as the potential for growth is enormous.

Our friends and allies are fully aware that from the ancient times, control of the trade routes both commercially and militarily, is what gives nations their power. The Phoenicians, Greeks, Romans, Spanish, English, were very successful because they followed this strategy. Even nowadays the power of the "West" is based on sea power. Greek-controlled shipping is an important component of this power system which contributes to both the security and prosperity systems of Greece and Europe. As such, both Greek and European politicians should be very careful when they abuse the news-catching ability of shipping for their benefit, as they are shooting one of the two feet that hold them in power.

The rest of us should be proud of the achievements of Greek shipping and actively discourage misinformation, as a matter of national interest.



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