

**EXPLANATORY MEMORANDUM TO**  
**THE TONNAGE TAX (TRAINING REQUIREMENT) (AMENDMENT)**  
**REGULATIONS 2011**

**2011 No. 2185**

**1.** This explanatory memorandum has been prepared by the Department for Transport and is laid before the House of Commons by Command of Her Majesty. This memorandum contains information for the Select Committee on Statutory Instruments.

**2. Purpose of the instrument**

2.1 These Regulations increase the amounts to be used in calculating payments in lieu of training payable under the Tonnage Tax (Training Requirement) Regulations 2000 (S.I. 2000/2129).

**3. Matters of special interest to the Select Committee on Statutory Instruments**

3.1 The Regulations impose increases above the rate of inflation in order to bring the fees, which are payable in lieu of providing training, back into line with actual training costs. This is the second of a two stage process begun last year to bring these fees into line with actual costs.

**4. Legislative Context**

4.1 The Tonnage Tax (Training Requirement) Regulations 2000 are made under powers in Schedule 22 (tonnage tax) to the Finance Act 2000 (c. 17). Schedule 22 provides shipping companies with an alternative regime for calculating their profits for the purposes of corporation tax. The regime only applies if a shipping company makes an election to that effect. The effect of an election is to bring into charge to corporation tax the company's tonnage profits in place of its relevant shipping profits. Its tonnage profits are calculated by reference to the net tonnage of the qualifying ships operated by the company.

4.2 A company making a tonnage tax election (a "tonnage tax company") must meet certain minimum obligations in connection with the training of seafarers. A tonnage tax company may meet its obligations by making payments in lieu of training ("PILOT"). The 2000 Regulations prescribe the nature of the minimum training obligation and the basis for calculating PILOT.

**5. Territorial Extent and Application**

5.1 This instrument applies to all of the United Kingdom

## **6. European Convention on Human Rights**

As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

## **7. Policy background**

7.1 One feature of UK tonnage tax is to impose a minimum training obligation on companies entering the scheme. This is to train one officer trainee per year for every 15 officer posts in the company's effective officer complement, and to give consideration to employment and training opportunities for ratings.

7.2 The training commitment was adopted to try to ensure an increase in UK seafarers to meet both present needs at sea and future jobs onshore in the maritime services sector.

7.3 The 2000 Regulations provide for training shortfalls to be made good by payments in lieu of training to the Maritime Training Trust (MTT), a body independent of Government which holds and allocates the monies received by it for the purpose of promoting the training of seafarers.

7.4 Representations made by the Maritime Training Trust showed that PILOT payments were out of line with actual training costs. To bring them back into line, in addition to uprating for inflation, this year's basic rate will be increased from £676 to £726. The basic rate plus the MTT's overhead costs gives the amount used to calculate the payment in lieu of training for the relevant period. The MTT's overhead costs will increase from £67 to £72 (including uprating for inflation), so the amount specified for calculating payments in lieu of training will increase from £743 to £798 (regulation 15 of the Tonnage Tax Regulations). The basic rate without those costs is used for calculation of the higher rate in case of failure to meet a training commitment (regulation 21).

## **8. Consultation outcome**

8.1 The original rate of PILOT was agreed after discussion in the Shipping Working Group when tonnage tax was developed. The group included representatives from the maritime trades unions and the Chamber of Shipping. The initial rate for PILOT payments was set to be slightly higher than the cost of having a trainee in post. Trade unions and the Chamber of Shipping were aware that it would be increased annually in line with the Treasury GDP Deflator, to maintain its real value.

8.2 The real value of PILOT has fallen over time. Following representations from the Maritime Training Trust to bring PILOT into line with actual training costs, a consultation exercise was carried out.

8.3 The consultation exercise began on 23 March 2010 and ended on 4 May 2010. The consultation document was sent out to all the companies which have opted into tonnage tax. It was also sent out to the Maritime Training Trust, the Chamber of Shipping and the Maritime trade unions. The Department had 19 responses to the

consultation document of which 17 were in favour of PILOT being increased in line with actual training costs.

8.4 It was therefore decided that PILOT would be increased to bring them into line with actual training costs. The increase would be phased over two years. The basic rate of PILOT would be increased to £676 from 2010/11, and to £726 from 2011/12, while the MTT's overhead costs would rise to £67 from 2010/11, and to £72 from 2011/12.

## **9. Guidance**

9.1 The Department will write to tonnage tax companies in advance of the new Statutory Instrument coming into force. The companies were aware that the level of PILOT payments would be uprated for inflation each year as the Department's guidance brochures make reference to this. They will be informed of the increases of PILOT payments to cover actual costs.

## **10. Impact**

10.1 The impact on business, charities or voluntary bodies is that tonnage tax companies will have to pay increased PILOT.

10.2 The impact on the public sector is nil.

10.3 An Impact Assessment was prepared for this instrument at consultation stage and remains valid.

## **11. Regulating small business**

11.1 The legislation applies to all tonnage tax companies which could include small business. However, the majority of tonnage tax companies are not small businesses and the impact on any small business is likely to be minimal.

## **12. Monitoring & review**

12.1 The Department will review PILOT payment rates with a view to making a further amendment to the legislation in 12 months time.

## **13. Contact**

Stephen Eglesfield at the Department for Transport (Tel: 020 7944 5121 or e-mail: [stephen.eglesfield@dft.gsi.gov.uk](mailto:stephen.eglesfield@dft.gsi.gov.uk)) can answer any queries regarding the instrument.