

**AN EXPLORATORY STUDY ON TONNAGE TAX  
ADOPTION IN NIGERIAN SHIPPING INDUSTRY**

**BY**

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the degree of Doctor of Philosophy (Accounting)**

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## ABSTRACT

Tonnage tax regime has been adapted in several climes to address fleet-decline. The regime first started from Greece in 1975 and has diffused to jurisdictions across the globe. This regime considers gross/net tonnage of a ship as a tax-base unlike income tax-base in IFRS12. Nigeria current tax system was argued by numerous studies as unfriendly to shipping and among the reasons of fleet-decline. This study was conducted to understand the endogenous and exogenous drivers of the regime, its harmonisation process with IFRS, and to proffer the likely suitable regime from contents of other competitive shipping tax regimes. A face-to-face interview with experts in Nigerian shipping, focus-group interview with participants from Financial Reporting Council of Nigerian, and contents analysis of three international shipping-tax-consultants' records (consisting of 56 countries were sampled) were conducted. Results were thematically presented into four areas using ATLAS.ti8. Top-management role, followed by employees, and the organisation were found as endogenous drivers in the regime. Secondly, the exogenous consideration was found social factor as the most critical, followed by economic factor, technological factor, environmental factor, and legal factor. Thirdly, on harmonisation with IFRS, two processes were identified: either initiation from local jurisdiction or umbrella body and the study found that standard or guidelines need to be developed before adoption. The last area explores other tax regimes and establishes the likelihood of adoption, where tonnage tax was found as the most occurred in the content reviewed. Limitation includes reliance on the participants' ability to accurately and honestly recall their experiences, circumstances, thoughts or behaviours during the interview. Originality: The method employed is a flexible and powerful tool that enables capturing of participants voices and the meanings they make from their experiences as experts in Nigeria shipping industry. The findings reveal a deep understanding of the issues from field-experts view.

## خلاصة البحث

نظام ضرائب الحمولة يُعتبر أحد الاختراعات التي تكيفت معها الدول لمعالجة انخفاض الأسطول الذي نظام ضرائب الحمولة يُعتبر أحد الاختراعات التي تكيفت معها الدول لمعالجة انخفاض الأسطول الذي أحدثته العولمة. بدأ النظام لأول مرة من اليونان في عام ١٩٧٥ وانتشر في الولايات القضائية في جميع أنحاء العالم. بدأ النظام لأول مرة في اليونان في عام ١٩٧٥ وانتشر في العديد من السلطات الضريبية في جميع أنحاء العالم. تُعدُّ آلية التقييم الضريبي المبتكرة هذه الحمولة الإجمالية/الصفافية للسفينة بمثابة قاعدة ضريبية بدلاً من الدخل التقليدي الذي يشيد به المعيار الدولي لإعداد التقارير المالية (IFRS12) باعتباره القاعدة الضريبية لتحديد الالتزام الضريبي. جادلت العديد من الدراسات بأن النظام الضريبي الحالي في نيجيريا غير مناسب للشحن وأحد أسباب تراجع الأسطول. أجريت هذه الدراسة لفهم الدوافع الجوهرية والخارجية للنظام، وعملية تنسيقه مع المعايير الدولية لإعداد التقارير المالية وتقديم نظام مناسب محتمل من محتويات أنظمة ضريبة الشحن التنافسية الأخرى. تم إجراء مقابلة وجهًا لوجه مع خبراء الشحن النيجيريين، ومقابلة جماعية مركزة مع مشاركين من مجلس التقارير المالية النيجيري. كما تم تحليل محتويات سجلات ثلاثة خبراء استشاريين دوليين في مجال ضريبة الشحن (يتألفون من ٥٦ دولة). تم عرض النتائج بموضوعية في أربع مجالات باستخدام ATLAS.ti8. النتائج: تم العثور على دور الإدارة العليا، يليها الموظفون والمؤسسة كسائقين داخليين في النظام. ثانياً، وجد الاعتبار الخارجي العامل الاجتماعي يبدو أهم عامل نجاح، يليه العامل الاقتصادي، والعامل التكنولوجي، والعامل البيئي والعامل القانوني. ثالثاً، فيما يتعلق بالتنسيق مع المعايير الدولية لإعداد التقارير المالية، تم تحديد عمليتين: إما البدء من الولاية القضائية المحلية أو الهيئة الجامعة، ووجدت الدراسة أن المعيار أو الإرشادات بحاجة إلى التطوير قبل اعتمادها. استكشف المجال الأخير أنظمة ضريبية أخرى ويثبت احتمال اعتمادها حيث تم العثور على ضريبة الحمولة كما حدث في المحتوى الذي تمت مراجعته. تشمل قيود الدراسة الاعتماد على قدرة المشاركين على تذكر تجاربهم أو ظروفهم أو أفكارهم أو سلوكياتهم بدقة وبصدق أثناء المقابلة. الأصالة: الطريقة المستخدمة هي أداة مرنة وقوية تمكن من التقاط أصوات المشاركين والمعاني التي يصنعونها من تجاربهم كخبراء في صناعة الشحن النيجيرية. استكشف النتائج عن فهم عميق للقضايا من وجهة نظر الخبراء الميدانيين.

## APPROVAL PAGE

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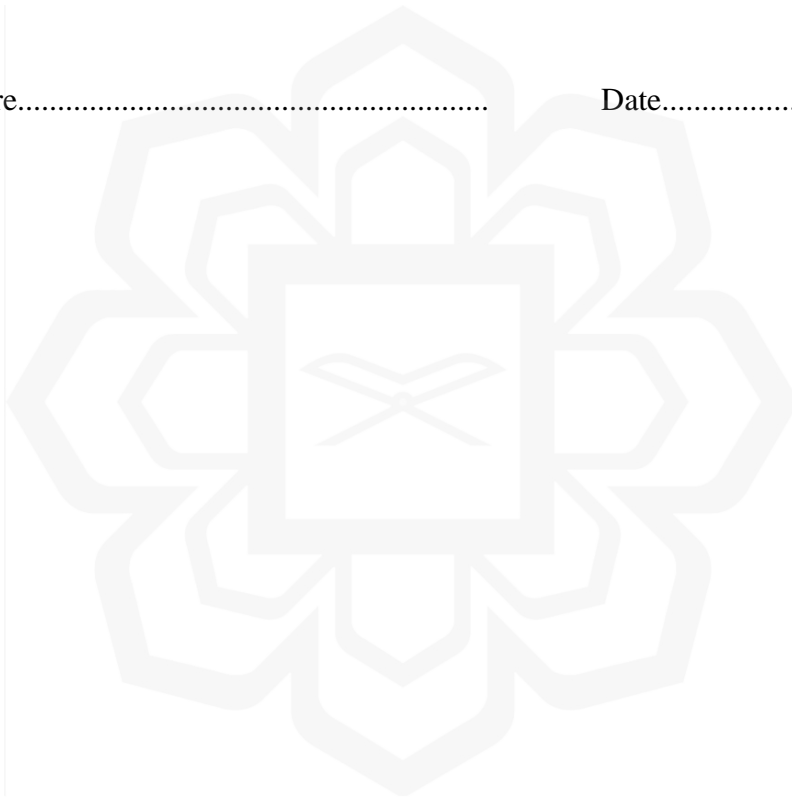
## DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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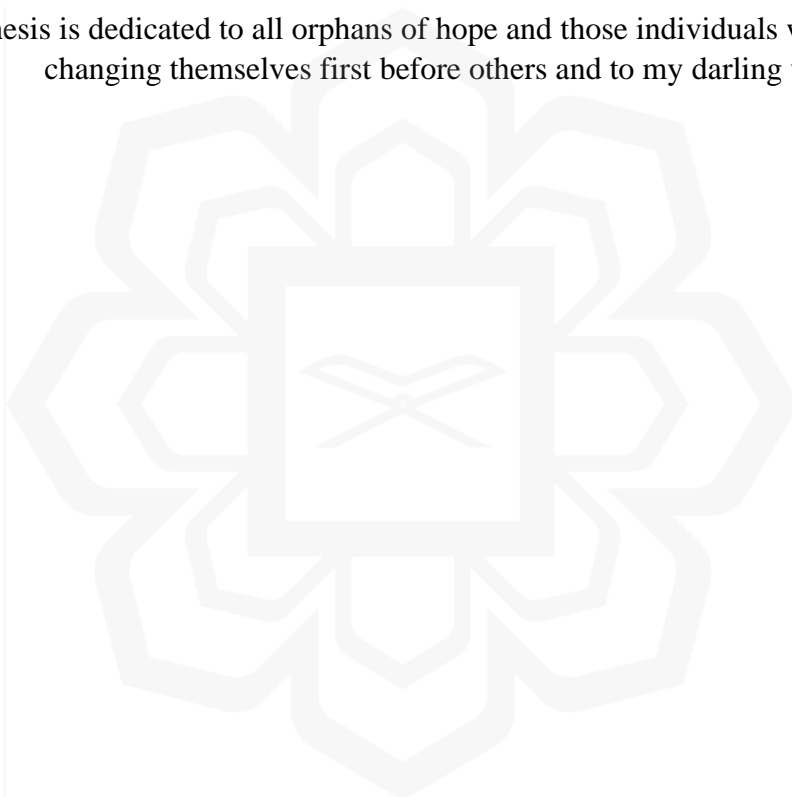
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## DEDICATION

This thesis is dedicated to all orphans of hope and those individuals with courage of changing themselves first before others and to my darling wife.



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## LIST OF SYMBOLS

<b>Symbol/Abbreviation</b>	<b>Operational Meaning</b>
R	The Researcher
I	Informant or Interview Participant
...	Each dot represents a one second pause. This is 3seconds pause
r	Repetition of what was early said
[	Start of an overlapping talk
( )	Unclear talks
=said	Between one speaker talk and another
>word<	Rushed-through speech
<word>	Slow-through speech
<i>CAPITAL</i>	Text in capital letter shows Loudness in volume
<i>small</i>	Softness in volume
→	Readers attention to significant line
.ha	Laughter particle (in-breath)
ha	Laughter particle (out-breath)
£smile£	Words expressed with a smiley voice
<u>emphasis</u>	Speaker's emphasis
NM	Pseudonym for respondents from Nigerian Maritime Administration and Safety Agency
NS	Pseudonym for respondents from Nigerian Shippers Council
NF	Pseudonym for respondents from Nigerian Financial Reporting Council

# CHAPTER ONE

## INTRODUCTION

### 1.1 CHAPTER OVERVIEW

This introductory chapter gives a background information on shipping industry and provides a cursory knowledge of the concerns that lead to the development of tax regimes in the industry. The chapter contains research: problem, research objectives, research questions and provides reasons that motivate research on tonnage tax adoption. This chapter further gives operational meaning to technical terms in the study and ends with a chapter summary.

### 1.2 BACKGROUND OF THE STUDY

Tax is an essential mechanism for controlling the influx or exodus of economic resources within tax jurisdictions (xxxxxx). A good trending example of tax as a control mechanism was President Trump's "trade war" with China (xxx). The prevalence of capital mobility in some industries was argued as justification for a tax to be used as effective weapons for national governments to achieve controls in business registration (xxxx).

The entry or exit of ships in national registry much more unlike other industries (xxxx).

Countries in the shipping industry, had several trade terms in the past that adversely affected some states and benefited others more and this will continue even in future ((Abdullah et al., 2020; Yin et al., 2018). The earliest period of commercial shipping was characterised by cabotage regime when countries were resistant to foreign domination in shipping industry (Suffian et al., 2015). The regime continued in both

local and international shipping services not until lately, after countries with less capital, decided to liberalise their economies with incentives tax system at which targeted at wooing shipping companies the most to fly their national flags (DuBois & Primo, 2016; Yin et al., 2018).

The incentive tax system which most scholars described as a liberalised economy (Haider, 2013; Isa, 2014; Umoh & Effiong, 2013) contributed to flag-out behaviour of shipping companies from most traditional maritime countries<sup>1</sup> to non-traditional maritime countries with liberalised economy, especially countries with liberalised tax policies to shipping companies (Chen et al., 2017; Yin et al., 2018). In tax competition, an ideal option for non-traditional maritime countries when there is trade imbalance with the traditional maritime countries is trade liberalisation that avoids trade asymmetry for the benefit of improving trade balance in non-traditional maritime countries (Exbrayat, 2016; Ghani, 2005).

Despite the advantages of liberalisation, Nigeria is one of the non-traditional maritime countries that is yet to liberalise its economy nor give any special consideration like other non-traditional maritime countries to international shipping (Lazarus & Ukpere, 2011a). Reason to this was the enactment of regimented law which was adapted by the Malaysian enactment (Anele, 2017; Lazarus & Ukpere, 2011a). This adapted law in Malaysia was amended to allow liberalisation in deep sea trade (Suffian et al., 2015). However, Nigeria up to present time, still hold both of its international and coastal ship registry to regimented act (Anele, 2017).

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<sup>1</sup> Trade liberalisation change the narrative of ship ownership and registration status from traditional maritime nations to a new maritime nation where countries like Liberia currently play significant role in ship registration and pivotal role in international maritime organisation affairs (J. Yin et al., 2018). Traditional Maritime countries are Denmark, Norway, USA, Germany, Greece, Norway etc (Otheitis & Kunc, 2015). They are developed countries with a pioneering status in international commercial shipping.

Several studies show that liberalisation of shipping sector helps most non-traditional maritime countries to correct trade imbalance (Baunsgaard & Keen, 2010; Ghani, 2005), and traditional maritime countries that were adversely affected by the aftermath of trade liberalisation from most of the non-traditional maritime countries show concern on how to change the narratives of ships flying their national flag back to their favour again (Steven, 2017). Years of time were allotted to research on how to offer a counter-tax friendly system by traditional maritime nations in order to revert fleet decline among flag-out countries that lead to the introduction of tonnage tax system (Bell, 2017; Damachi & Yang, 2005).

The history of tonnage tax was traced to Greece and further improvement was made by Dutch (Marlow & Mitroussi, 2011; Steven, 2017). In 1957, a Tonnage Tax Greek model was developed and it considers only the gross tonnage of the ship and the year of built to determine its tax liability for the shipping company instead of using assessable income based on operating income that attributable to the shipping company from the ship operation as widely known in accounting using preceding year basis (Gekara, 2010).

Later in 1996, a more competitive tonnage tax model was developed and became known as the Tonnage Tax Dutch Model. For the difference between the two, the former recommends gross tonnage, while the latter use net tonnage to assess tax liability for shipping companies (Lipton & Hicks, 2010; Steven, 2017). After the two identified models, this innovative mode of tax assessment gains diffusion among countries in the shipping industry (Marlow & Mitroussi, 2012). This method of tax become a great concern to accounting profession because of its fundamental method of assessment that is considered alien to accounting profession.

Tonnage tax system has no generalised accounting standard, nor was **IAS 12 provision<sup>2</sup>** that discussed income tax, adequate to cover tax assessment using size of a ship measured in tonnage (Brownrigg, Dawe, Mann, & Weston, 2001; Steven, 2017). The dynamic nature of shipping requires not only countries to be innovative enough in order to withstand the shock and benefits of globalisation in the sector, but accountants must also be proactive to understand its dynamism and the importance of the shipping industry for their professional services to remain relevant (Ermakova & Gudshatullaeva, 2016; Lee et al., 2014; Tawiah & Boolaky, 2019).

Shipping industry account for about eighty-five percent of world trade volume on transportation services across the globe (UNCTAD, 2018). It is an industry that is globally opened to technological advancement such as drones, autonomous container ship, and different kinds of block chain applications that are capital intensive; and this in turn demands a careful financing decision from shipping companies to consider jurisdictions with lesser operating cost and maximum return (Cam & Palaz, 2016). Only few investors can afford ship of international standard due to its high cost of financing (Abdullah et al., 2020; Choy et al., 2016; Haider, 2013). The existence of tax systems enables shipping companies to decide their place of management and this idea leads to tax competition among countries (Chirinko & Wilson, 2017; Manolis & Bozzer, 2020; Panagiotou & Thanopoulou, 2019; Y. Yin, 2020).

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<sup>2</sup> In 2009, the International Financial Reporting Interpretations Committee (IFRIC) received a request for clarification on whether tax assessment based on tonnage/size of ship should be treated in accordance with the provision of IAS 12 under income tax and if provisions of IAS 12 should be extended to include tonnage tax. A number of reasons were given for the committee's decision not to include tonnage tax see: <https://www.iasplus.com/en/meeting-notes/ifrs-ic/not-added/2009/ias-12-classification-of-tonnage-taxes>

In 2005, Nigeria proposed to introduce tonnage tax and become competitive like other countries<sup>3</sup>. This study uses a qualitative interpretive method, rooted in the interpretive research-paradigm to achieve four pre-implementation research objectives before the adoption of tonnage tax in Nigeria. These includes exploration of endogenous factors peculiar with government readiness to implement tonnage tax, exogenous consideration on tonnage adoption that is related to ship registration in Nigeria, accounting standard concerns before implementation, and other suitable options in a competitive tax regime for Nigeria to adopt. A study that involved seeking for primary data source using interview and the researcher's direct involvement in data collection was argued as a qualitative study (Ahmad, 2017; Morgan, 2014).

The unique contribution of the proposed study to tonnage tax adoption is determined when other studies also looked at tonnage tax adoption in their post implementation stage (Anna et al., 2019; Brownrigg et al., 2001; Chen et al., 2017; Leggate & McConville, 2005; Marlow & Mitroussi, 2011; Yin, 2020). In other words, majority of studies on tonnage tax adoptions, looked at countries that adopted tonnage tax for years, along with the after-effects of its adoption to explain the significance of its implementation. The present study explores the critical discussion before adopting a new tax system known as tonnage tax in Nigeria (a pre- adoption study on tonnage tax in Nigeria).

### **1.3 STATEMENT OF THE PROBLEM**

The number of registered ships in Nigeria continue to decline due to high tax burden and related cost of doing business in the country (Ansah et al., 2020; Nwaka et al., 2015;

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<sup>3</sup> Ugwoke (2005) "Nigeria: FG Plans Flat Tax Rate for Ships" in This Day Newspaper accessed on 23/3/19 <https://allafrica.com/stories/200511180070.html>

Okeke & Aniche, 2012). In 2021, it was reported that Nigeria lose \$4million daily as a result of the absence of national carrier in seaborne trade<sup>4</sup> The fleet-decline makes freight shipment higher and affects other benefits associated with ship-registration<sup>5</sup> (Ezeani, 2018). Such associated benefits of ship-registration in a country include the increase in employment rate, favourable exchange rate, and trade openness in favour of countries with higher number of registered-ship (Hayashi, 2020; Ruslan et al., 2019).

Despite these identified advantages of having a ship registered in a country, Nigerian tax authorities still assessing shipping companies on general company income tax rate of thirty-five percent like every other sector of Nigerian-economy, which discourage even indigenous shipping companies from registering in the country (Maku & Alimi, 2018). In 2005, a proposal for the introduction of a flat tax rate was discussed, where Ramadan (2005)<sup>6</sup> described tonnage tax as a means of reverting the declining number of registered ships in Nigeria. According to him: “...*this is what is obtained in the United Kingdom, France and Japan*”. The problem is, despite identifying the cause of fleet decline as well as the anticipated solution, Nigeria is yet to adapt tonnage tax to address the issue of fleet decline.

Evidence in literatures show that most of the countries plagued with fleet-decline certainly chose to adapt tonnage tax in redressing this problem in their respective countries (Leggate & McConville, 2005; Marlow & Mitroussi, 2012; Panagiotou & Thanopoulou, 2019; Yin, 2020). The tax spread of tonnage tax is claimed to be almost less than one percent tax payable when compared with conventional tax that was based

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<sup>4</sup> Iyatse (2021) “Daily Trust Publication” titled: Absence of national carrier cost Nigeria \$4 Million Daily, says Ogebeifun. Punlished on 11<sup>th</sup> February 2021 See:

<sup>5</sup> Ship-ownership is a term used in the maritime industry to describe the country flag that a ship is flying for commercial purposes. The chosen flag, subject the ship to regulations as registered in the country and implicitly owned and controlled by the country.

<sup>6</sup> Ugwoke (2005) in Daily Trust Newspaper published on 10/11/2005 titled: “Nigeria: FG Plan Flat Rate Tonnage Tax for Ships” <https://allafrica.com/stories/200511180070.html>

on income of a shipping company (Lipton & Hicks, 2010; Marlow & Mitroussi, 2011; Yin, 2020). This new method of tax assessment is based on the size of a ship instead of assessable income as defined in international accounting standard 12 (IAS 12).

Some of the unique characteristics of tonnage tax to be discussed later are lock-in-period, place of management, employment clauses and notional income tax liability (J. Chen et al., 2017; Elschner, 2013; Y. Yin, 2020). It must be emphasised that the tax computation can be predetermined before the assessment year, easy to be computed and has an administrative convenience to both government and shipping companies (Leggate & McConville, 2005)(Brownrigg et al., 2001; Elschner, 2013).

Above advantages were recorded in other climes, thus informed Nigeria to be one of references with respect to tonnage tax adoption in 2005, which was about the same time when South Africa announced its adoption- intention in 2005 budget<sup>7</sup>. However, seventeen years after (in 2021), Nigeria is yet to take any convincing step towards implementing tonnage tax, hence the country suffer from decline fleets, low employment for country's seafarers, and cost of shipment remain high (Ali et al., 2019; Hayashi, 2020; Ruslan et al., 2019). This study therefore become necessary, by exploring stakeholders' opinion in Nigeria on tonnage tax adoption at the pre-implementation stage. To achieve this, the study participants were drawn from Nigeria with experience in accounting or shipping-industry, or a combination of both.

Based on the identified issue, this study explores the critical pre-implementation considerations with the following objectives: to gather opinions on the peculiar endogenous factors on government readiness to implement tonnage tax regime in Nigeria, to explore the critical exogenous factors that are broadly necessary for adopting

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<sup>7</sup> National Treasury Department, South Africa: A Discussion Document on South Africa Tonnage Tax Proposal [http://www.treasury.gov.za/public comments/Tonnage tax discussion.pdf](http://www.treasury.gov.za/public%20comments/Tonnage%20tax%20discussion.pdf)