



EUROPEAN COMMISSION

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COMMISSION DECISION

on 18.12.2009

STATE AID

n° C 34/07 (ex N 93/2006)

**related to the introduction of a tonnage tax scheme in favour of international
maritime transport in Poland**

(Only the Polish version is authentic)

(Text with EEA relevance)

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THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union (TFEU), and in particular the first subparagraph of Article 108(2) thereof¹,

Having regard to the Agreement on the European Economic Area, and in particular Article 62(1)(a) thereof,

Having called on interested parties to submit their comments pursuant to the provision(s) cited above² and having regard to their comments,

Whereas:

¹ With effect from 1 December 2009, Articles 87 and 88 of the EC Treaty have become Articles 107 and 108, respectively, of the TFEU. The two sets of provisions are, in substance, identical. For the purposes of this Decision, references to Articles 107 and 108 of the TFEU should be understood as references to Articles 87 and 88, respectively, of the EC Treaty where appropriate.

² OJ C 300, 12.12.2007, p. 22.

Jego Ekscelencja
Pan Radoslaw SIKORSKI
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1. PROCEDURE

1. By letter of 1 February 2006³, Poland notified the Commission of a Tonnage Tax scheme. The case has been registered under Number N 93/2006.
2. By letters of 9 March, 29 May, 14 November 2006 and 11 April 2007⁴, the Commission services requested further information. By letters of 20 April, 9 May and 6 September 2006, 5 January and 8 June 2007⁵, the Polish authorities replied to the Commission. In addition, a meeting at a technical level took place on 19 January 2007.
3. By letter dated 12 September 2007⁶, the Commission informed the Republic of Poland that it had decided to initiate the formal investigation procedure laid down in Article 88(2) of the EC Treaty in respect of the aid (hereinafter "the opening decision").
4. Poland submitted its comments by letter dated 18 October 2007⁷.
5. The Commission decision to initiate the formal investigation procedure was published in the *Official Journal of the European Union*⁸. The Commission invited interested parties to submit their comments on the aid.
6. The Commission received comments from one interested party⁹. It forwarded them to Poland, but the latter did not use its right to react to them.
7. Following a meeting between the Commission services and the Polish authorities on 14 January 2009, by letter of 25 February 2009¹⁰ the Polish authorities committed to modify their tonnage tax scheme on a number of issues on which the Commission had expressed its concerns in the decision to open the formal investigation procedure. By letters of 24 March 2009¹¹, 26 October 2009¹² and 9 December 2009¹³ the Polish authorities submitted further information.

2. DETAILED DESCRIPTION OF THE AID

2.1. Summary

8. For ship-owners engaged in international maritime transport, tonnage tax is deemed to replace corporation tax or personal income tax by a lump sum amount calculated on the basis of the tonnage of the fleet operated. International maritime transport is defined as transport between a Polish port and a foreign port, between foreign ports, or between Polish ports but only on condition that this voyage is a leg of a longer voyage also serving a foreign port. Activities on routes exclusively within Poland (cabotage) are thus not eligible for tonnage tax under the current Tonnage Tax Act.

³ Registered under Reference TREN(2006) A/12656.

⁴ References TREN(2006) D/204393, D/210227, D/223420 and TREN(2007) D/307010.

⁵ Registered under References TREN(2006) A/19774, A/22657, A/31398 and TREN(2007) A/21073, A/34300.

⁶ Registered under Reference C (2007)4016

⁷ Registered under Reference TREN(2007) A/45675.

⁸ OJ C 300, 12.12.2007, p. 22.

⁹ Registered under Reference TREN (2007) A/51337.

¹⁰ Registered under Reference TREN(2009) A/10443.

¹¹ Registered under Reference TREN(2009) A/13527.

¹² Registered under References TREN(2009) A/34359.

¹³ Registered under Reference TREN(2009) A/38744

2.2. The tonnage tax scheme

9. The Polish tonnage tax scheme is established by the Tonnage Tax Act, adopted on 24 August 2006¹⁴. The Act is planned to enter into force as from 1 January 2011 once the Commission has approved the scheme.
10. The Tonnage Tax Act allows tonnage tax liable ship operators to be exempted from paying tax on profits, as defined in the Act of 31 January 1989 on the financial management of State enterprises¹⁵ and the Act of 1 December 1995 on payments from profits earned by single-member companies of the State Treasury¹⁶, in relation to revenue from eligible activities. The ship operators have the right to choose tonnage tax treatment by submitting a special declaration, by which they opt for this type of taxation.
11. Pursuant to Article 5 of the Tonnage Tax Act, for each vessel subject to tonnage tax, the taxable profits pertaining to eligible activities shall be fixed at a lump sum calculated on the basis of its net tonnage as follows, per 100 NT, per 24-hour period started and corresponding to the period of operation in the month concerned of all the operator's ships, the revenue from which is subject to tonnage tax:

<i>Net capacity of vessel</i>	<i>Calculation of flat-rate revenue</i>
<i>Up to 1000 NT</i>	<i>The equivalent of EUR 0.5 per 100 NT</i>
<i>From 1001 to 10 000 NT</i>	<i>The equivalent of EUR 0.35 per 100 NT over 1000 NT</i>
<i>From 10 001 to 25 000 NT</i>	<i>The equivalent of EUR 0.20 per 100 NT over 10 000 NT</i>
<i>From 25 001 NT</i>	<i>The equivalent of EUR 0.10 per 100 NT over 25 000 NT</i>

12. For the purposes of calculation, the net capacity of the vessel is rounded up or down in the following manner: a capacity of less than 50 NT is discarded and a capacity of 50 NT or more is rounded up to the nearest 100 NT.
13. The amount of tonnage tax due is calculated from the taxable base to which the rate of 19% is applied.
14. The amount of tonnage tax will be calculated in EUR and paid in PLN using the average exchange rate, as published by the National Bank of Poland, for the last day of the month in respect of which tonnage tax is payable. The amount of tonnage tax due is calculated without deduction of any cost incurred in the generation of such revenue.
15. Under Article 8 of the Tonnage Tax Act, revenues from the sale of an eligible vessel by a tonnage tax company will go out of the perimeter of tonnage tax revenues and be taxed at a flat rate of 15% where they are not fully used within three years for the purchase, repair, modernisation or adaptation of another vessel.

¹⁴ Journal of Laws 2006, No 183, item 1353.

¹⁵ Journal of Laws 1992, No 6, item 27, as amended.

¹⁶ Journal of Laws, No 154, item 792.

16. Individuals or members of a partnership, liable to personal income tax, were to be allowed to deduct the amount of health insurance contributions from the tonnage tax amount paid directly by them during the relevant tax year¹⁷ (Article 6 of the Tonnage Tax Act) and the amount of social security contributions which they paid during the relevant tax year¹⁸ from the tonnage tax base (Article 4(3) of the Tonnage Tax Act).
17. In their letter from 25 February 2009 the Polish authorities committed to remove from the Tonnage Tax Act the possibility to deduct social security and health insurance contributions if the shipowner is a natural person or a natural person in a partnership¹⁹. Therefore, these possibilities for deduction will not be applied and the same method of calculation of the tonnage tax base and the amount of the tonnage tax to be paid will be applied for all entities eligible for tonnage tax.

2.3. Eligibility criteria

2.3.1. Eligible vessels

18. Only seagoing vessels listed in the Polish maritime register are eligible for tonnage tax. Therefore an eligible vessel is a vessel that is flagged in Poland and engaged in international maritime transport, which complies with all the requirements for navigation at sea. Acceptance of a ship as seagoing will normally require the ship to be certified as such under the International Load Line or the Safety of Life at Sea Convention (hereinafter "the SOLAS Convention")²⁰.

2.3.2. Eligible activities

19. The activities eligible for tonnage tax are as follows²¹:
- (i) transport of freight and/or passengers;
 - (ii) sea rescue operations;
 - (iii) maritime towage, on condition that at least 50% of the revenue from the work actually performed by the tug over a fiscal year was generated by the provision of maritime transport and not towage to and from a port;
 - (iv) dredging, on condition that 50% of the revenue from the work actually performed by the dredger during the course of a year is generated by the transport at sea of materials.
20. In their letter from 25 February 2009 the Polish authorities committed to modify the third and fourth provisions above²² by introducing the criterion that in order to include towage

¹⁷ As defined in the Act of 27 August 2004 on healthcare services financed from public funds; Journal of Laws No 210, item 2135, as amended.

¹⁸ As defined in the Social Security System Act of 13 October 1998; Journal of Laws 2007, No 11, item 74, as amended.

¹⁹ Cf. Art. 4(3)-(5), Art. 6 and Art 12(3) of the Act.

²⁰ The SOLAS Convention was adopted by the International Maritime Organisation (IMO) at London, on 1 November 1974 (implemented in Poland Journal of Laws, No 61, item 318 and 319) together with the Protocol to the same Convention, done at London on 17 February 1978 (implemented in Poland, Journal of Laws 1984, No 61, items 320 and 321, and 1986, No 35, item 177).

²¹ Article 3.1 of the Tonnage Tax Act.

²² Contained in Article 3(1) second and fourth indent of the Tonnage Tax Act

and dredging in the tonnage tax scheme, at least 50 % of the annual operational time of each tug or dredger over a fiscal year should constitute maritime transport.

21. In addition, Article 3(2) of the Tonnage Tax Act provides ancillary activities that are eligible for tonnage tax on condition that they are connected with the provision of eligible services stipulated above.
22. Article 3(3) of the Tonnage Tax Act establishes a list of activities that are never eligible for tonnage tax, such as exploration from the sea bed, fishing, construction, underwater works, etc.

2.3.3. *Eligible entities*

23. Eligible companies are operators fulfilling certain criteria.
24. An operator is defined in Article 2(3) of the Tonnage Tax Act as: (i) a private individual (natural person) or a legal person, having respectively its place of residence, registered office or management on the territory of Poland; (ii) a partner in a civil partnership, registered partnership, limited partnership or limited joint-stock partnership having its registered office, management or place of residence on the territory of Poland; or (iii) a foreign entrepreneur/undertaking within the meaning of the Act of 2 July 2004 on freedom of economic activity²³, performing in Poland activities eligible for tonnage tax²⁴; and meeting at least one of the following conditions:
 - to be directly involved in navigation using maritime vessels personally owned or owned by another person and to hold a valid Document of Compliance²⁵;
 - to be the owner of a vessel but not to engage personally in navigation of his own vessel or that of another person;
 - to manage a vessel of another person, on behalf and account of that person on a contractual basis, and to hold a valid Document of Compliance²⁶.
25. As regards the last condition (management of vessels), by letter of 8 June 2007 the Polish authorities committed to allow managing companies to benefit from the tonnage tax only if they ensure simultaneously both management of crews and technical management of vessels.
26. In addition, by letter of 26 October 2009²⁷ the Polish authorities clarified that the ship management companies comply with all requirements contained in the Communication from the Commission providing guidance on State aid to shipmanagement companies (hereinafter "Ship Management Guidelines")²⁸.
27. In particular, as regards the conditions of the Ship Management Guidelines that shipmanagement companies should contribute to the economy and employment within

²³ Journal of laws No 173, item 1807, as amended.

²⁴ See Section 2.3.2. above.

²⁵ The Document of Compliance is issued in accordance with the SOLAS Convention to an operator who meets the requirements of the International Management Code for the Safe Operation of Ships and for Pollution Prevention (hereinafter "the ISM Code"). The ISM Code was adopted by IMO by resolution A.741(18) (implemented in Poland, Official Journal of Minister of Infrastructure 2005, No 4, item 28).

²⁶ See footnote 25.

²⁷ Registered under References TREN(2009) A/34359.

²⁸ OJ C 132, 11.6.2009, p. 6.

the Union (Section 5.1. thereof) and that there should be an economic link between the managed ships and the Union (Section 5.2. thereof), the Polish authorities committed that the Polish Tonnage Tax Act will require that the ship management should be carried out from the territory of the EU and that mainly Union nationals will be employed in land-based activities or ships. In addition, ship management of non-Union ships is excluded from the benefit of the tonnage tax scheme.

28. As far as the requirement of compliance with the international and EU standards contained in the Ship Management Guidelines (Section 5.3 thereof) is concerned, the Polish authorities clarified that Poland is a member of the International Maritime Organisation and as an EU Member State it fulfils all international and European standards²⁹. A number of national legislative acts ensure the compliance of shipowners, shipmanagers and other companies with the international requirements³⁰, whose application is ensured and controlled by the respective public authorities.
29. Regarding the flag link requirement for shipmanagers (Section 5.4. of the Ship Management Guidelines), the Polish authorities pointed out the strict obligation for shipowners to fly under the Polish flag is also fully applicable to shipmanagers.
30. Concerning the specific training and social conditions contained in Section 6 of the Ship Management Guidelines, by letter dated 9 December 2009³¹ the Polish authorities undertook the commitment that from the moment of entry into force of the tonnage tax scheme they will require from each seafarers' employer, be it the ship owner or the ship management company, to comply with the particular provisions of the Maritime Labour Convention, 2006³²³³.

2.3.4. *Strategic and technical management*

31. In point 33 of the opening decision the Commission's understanding as regards strategic management was that "a tonnage tax company must take its decisions on significant capital expenditure and disposals in Poland. In assessing these matters the extent to which foreign based personnel work under the direction of, and report to, personnel based in Poland would be taken into account by the Polish authorities. Also important in assessing whether the strategic function is carried out in Poland will be the location of headquarters, including senior managers and the location of decision making of both directors' board and operational board".
32. With respect to commercial management the Commission noted in point 34 of the opening decision that "the fiscal authorities will verify that route planning, taking of bookings for passengers or cargo, provisioning and catering ships, personnel management and training, technical management of ships, including the taking of decisions on the repair and maintenance of vessel take place in Poland. Also relevant is the maintenance of

²⁹ In particular, Poland is a State Party to the SOLAS, MARPOL and STCW Conventions with all amendments thereto.

³⁰ In particular, Safety at Sea Act 2000 (with amendments), Prevention of Pollution from Ships Act 1995 (with amendments), Maritime Equipment Act 2004, Employment on the Merchant Ships Act 1991 (with amendments), Maritime Code Act 2001 (with amendments).

³¹ Registered under reference TREN (2009) A/38744

³² Integrated into EU law by Council Directive 2009/13/EC of 16 February 2009 implementing the Agreement concluded by the European Community Shipowners' Associations (ECSA) and the European Transport Workers' Federation (ETF) on the Maritime Labour Convention, 2006, and amending Directive 1999/63/EC (OJ L 124, 20.5.2009, p. 30).

³³ This condition will be inserted in an internal regulation implementing the Tonnage Tax Act.

support facilities such as training centres, terminals, etc. in Poland and the extent to which foreign offices or branches work under the direction of personnel based in Poland. The fact that a ship is flagged, classed, insured or financed in Poland may add further weight to the indicators set out above. But in any case both parts of the test, examination of strategic management and of commercial management must be passed".

33. Following the opening decision the Polish authorities clarified that the requirements contained in points 33 and 34 of the opening decision are not correct and that in fact the conditions contained in the Tonnage Tax Act as regards eligibility of operators are alternative and not cumulative. In fact, Article 2(3)(a) and (b) of the Tonnage Tax Act stipulates that an operator (i.e. a person eligible for tonnage tax provided his activities are eligible) is "*a natural or legal person, a partner of a civil partnership, registered partnership, limited partnership, limited joint-stock company, who must have, respectively, a place of residence, seat or Management Board in Poland*". In other words only one of the following three conditions should be fulfilled: (i) either all key decisions should be taken in Poland (including commercial and strategic management), or (ii) the headquarters, or (iii) the senior personnel should be established in Poland.
34. The Polish authorities further explained that Article 2(3)(c) of the Tonnage Tax Act clearly provides that the operator can also be a foreign entrepreneur³⁴ who is engaged in Poland in activities eligible for tonnage tax. Therefore, companies are not restricted to operate exclusively from Poland in order to be eligible to the Polish tonnage tax regime but may have their establishments in other Member States of the Union/EEA.

2.3.5. *Use of chartered-in vessels*

35. After the opening decision the Polish authorities clarified that pursuant to the Tonnage Tax Act (Article 2(3)(a) to (c) thereof) companies limiting their activities to chartering-in ships on a time or voyage basis cannot benefit from the tonnage tax. As a result, only operators who are shipowners or use chartered-in vessels on a bareboat basis or are managers can be eligible for tonnage tax.

2.3.6. *Ring fencing measures*

36. The Tonnage Tax Act provides for a number of ring-fencing measures to avoid spill-over effects into non-eligible activities in Poland or in other countries. These ring-fencing measures are intended to prevent non-qualifying activities from enjoying the benefit of the tonnage tax scheme³⁵.

2.3.7. *The "all or nothing" option*

37. Articles 3 and 4 of the Tonnage Tax Act provide that tonnage tax eligible ship-owners must put under tonnage tax all eligible vessels and all eligible activities performed onboard these vessels. Consequently, a selective use of the tonnage tax scheme (cherry picking) is entirely excluded.
38. This rule also applies to company groups. All eligible companies, tax-liable in Poland, of a company group must enter the Polish tonnage tax scheme for all their eligible activities, as soon as one company of the group has opted for it.

³⁴ Within the meaning of the provisions of the Polish Act of 2 July 2004 on freedom of economic activity, Dz U. No 173, item 1807, as amended.

³⁵ See Sections 2.7.4 – 2.7.9 of the opening decision.

39. Pursuant to Article 11 of the Tonnage Tax Act, in the case of a merger between ship-owners of which at least one is liable for tonnage tax, or where a tonnage tax company acquires other ship-owners, the newly formed shipping company will be liable for tonnage tax for all its aggregated eligible fleet.
40. Moreover, in case of cessation by a company of eligible for tonnage tax activities, the Tonnage Tax Act provides that it will not be possible to opt again for tonnage tax until three tax years have elapsed, counting from the end of the calendar year in which the operator ceased the activities or opted out of tonnage tax.
41. Furthermore, tonnage tax companies are for a certain period prevented from "opting out" from tonnage tax. This period, called the "tonnage tax period", is intended to avoid that ship-owners alternate periods under tonnage tax and periods under corporation tax depending on the level of their debts and profits. The tonnage tax period is currently fixed at 5 years in the Tonnage Tax Act (Article 10 of the Act).
42. However, by letter of 23 February 2009 the Polish authorities committed to modify the Tonnage tax Act by extending this period to 10 years. Therefore, once companies decide to opt in, they will be obliged to stay in the tonnage tax scheme for at least 10 years.

2.4. Flag-link

43. The notified Polish tonnage tax scheme has an explicit flag link, that is to say a requirement whereby only vessels listed in the Polish maritime register are eligible for tonnage tax.

2.5. Duration of the scheme

44. By letter of 13 April 2006, the Polish authorities made a commitment to limit the duration of the proposed tonnage tax regime to 10 years and to re-notify any prolongation or renewal of the scheme after this 10-year period. In addition, by letter dated 9 December 2009 they indicated that the tonnage tax scheme will enter into force as from 1 January 2011.

2.6. Possible overlap with other schemes

45. According to the information at the disposal of the Commission, there is at the moment no existing aid scheme in favour of maritime transport in Poland.

2.7. Annual reporting

46. The Polish authorities have undertaken in their notification to provide the Commission with annual reports on the situation with regard to changes in the Polish registered fleet and seafarer employment on that fleet, together with the number of tonnage tax companies or groups.

3. REASONS FOR OPENING THE INVESTIGATION PROCEDURE

47. In the opening decision the Commission expressed concerns about the following five features of the Polish tonnage tax regime and their compatibility with the internal market:
 - the fact that the scheme allowed natural persons to benefit from the tonnage tax; and also the fact that the scheme allowed natural or legal persons, subject to personal income tax who have opted for tonnage tax, to deduct social security

contributions and health insurance contributions from respectively their tonnage tax and tonnage tax base;

- the inclusion within tonnage tax of tugs and dredgers where such vessels provide services constituting maritime transport for less than half of their operational time over a fiscal year;
- the possibility for a ship-owner to put under tonnage tax vessels for which the company does not cumulatively ensure, on its own account or for the account of a third party, the three following functions: the commercial and technical management of vessels and the management of crews, beyond a tonnage exceeding four times the tonnage of vessels for which it ensures the three functions;
- the requirements in relation to strategic management and technical management that effectively all key decisions be taken in Poland and that the senior personnel, the headquarters and the board of directors and operational board should be in Poland, which could give rise to a *de facto* discrimination and limit the freedom of establishment of ship-owners from another Member State;
- the fact that tonnage tax companies could opt out of the tonnage tax system already 5 years after having opted in it.

4. COMMENTS FROM POLAND

48. After the adoption of the decision to initiate the formal investigation procedure, the Polish authorities made a number of clarifications regarding the facts described in the opening decision. They were duly taken into account in chapter 2 of the present decision and will thus not be repeated hereafter. The comments presented below are only those in respect of the concerns raised by the Commission in the opening decision.

Eligibility of natural persons to the tonnage tax; deduction in the case of natural persons liable to tonnage tax of health insurance contributions and of social security contributions from respectively their tonnage tax and the tax base

49. In the decision to open the formal investigation procedure, the Commission raised the question whether the inclusion of natural persons in the tonnage tax scheme should be possible. The Polish authorities argued that the failure to include natural persons in the tonnage tax scheme would lead to the incompatibility of the Tonnage Tax Act with the Constitution of Poland, because the latter ensures equal treatment of everyone by the public authorities. In addition, the Polish legislation does not prevent persons other than legal persons from engaging in maritime transport and, thus ship-owners may also be natural persons.

50. Regarding the issue whether the deductibility of social security contributions and health insurance contributions from respectively the amount and the base of tonnage tax is compatible with the internal market, the Polish authorities clarified that the deductibility is only possible for natural persons. They also considered that such a reduction stems from the fact that social insurance and health insurance contributions are compensated by the personal income tax scheme. In order to claim deductions it is not important whether income tax is paid based on income or revenue. Social insurance and health insurance contributions deductions may also be made by taxpayers who have opted for a lump sum

of register income tax, under which revenue is subject to taxation. They further argued that the fact that tonnage tax is not paid on the basis of real income should not decide about the lack of the possibility to deduct social insurance and health insurance contributions, respectively from the tax base and from tax.

51. Furthermore, the Polish authorities argued that depriving shipowners who are natural persons of the possibility of deducting social insurance and health insurance contributions respectively from the tax base and from tonnage tax would lead to differentiation in the legal and tax standing of shipowners, depending on whether, apart from engaging in activities subject to tonnage tax, they generate other income, i.e. from hiring and employment relationship.
52. The Polish authorities further clarified that the deductions system only concerns persons who engage in eligible business activities, and not to the sailors employed by them.
53. Nevertheless, as indicated in point 17 of the present decision, by letter from 25 February 2009 the Polish authorities committed to modify their tonnage tax scheme by removing from the Tonnage Tax Act the possibility to deduct social security and health insurance contributions if the shipowner is a natural person or a natural person in a partnership (i.e. Art. 4(3) to (5), Art. 6 and Art 12(3) of the Act).

Eligibility of dredging and towage activities

54. With regard to the Commission's preliminary assessment that the eligibility for tonnage tax of dredging and towage activities should be based on the operating time of a given tug or dredger in the fiscal year and not on the level of generated income, the Polish authorities argued that the linking to work time to the possibility of taxing a given activity with tonnage tax will not always reflect the use of this activity during the year.
55. In their view, it would be more appropriate to retain the present solutions, i.e. to refer to the share volume from activities covered by tonnage tax in the overall volume of revenue, as in such cases there exists the possibility of verifying data included in the accounts kept by the taxpayer. The Polish authorities stated that this kind of solution is simpler to control, both for the tax payer and the tax authorities, and this should permit the elimination of the unauthorised use of tonnage tax to cover these given types of activities in situations when the required conditions are not met.
56. Nevertheless, as noted in point 20 of the present decision, in response to the concerns raised by the Commission in the decision to open formal investigation procedure, by letter of 25 February 2009 the Polish authorities committed to modify their tonnage tax by introducing the criterion that in order to include towage and dredging in the tonnage tax, at least 50 % of the annual operational time of each tug or dredger over a fiscal year should constitute maritime transport.

Eligibility of technical management and management of crews, as well as chartered-in ships on a time or voyage basis in the tonnage tax scheme

57. In the decision to open formal investigation procedure the Commission clarified that only those vessels should be included in the tonnage tax in relation to which the ship-owner ensures either crew management and the technical management of the ship or the commercial management of the ship, providing that the tonnage of the mentioned ships does not exceed four times the tonnage of vessels in relation to which the ship-owner carries out at the same time these three functions, namely: technical management of the

ship, crew management and commercial management. The Polish authorities argued that they had conceived their tonnage tax system on the basis of the Community guidelines on State aid to maritime transport³⁶ (hereinafter "the Guidelines"), which do not contain such detailed conditions which therefore did not have to be included in the provisions of the Tonnage Tax Act.

58. As regards chartered-in ships on a time or voyage basis, as indicated in point 35 of the present decision the Polish authorities clarified that they will not be eligible for tonnage tax.

Requirements in relation to strategic management and commercial management

59. Regarding the requirements, described in the opening decision, in relation to strategic management and technical management that effectively all key decisions should be taken in Poland and that the senior personnel, the headquarters and the board of directors and operational board should be in Poland, the Polish authorities stated that these requirements do not stem from the provisions of the Tonnage Tax Act. According to the Polish authorities, the provisions of the Tonnage tax Act do not anticipate assessment (inspection) of strategic and commercial management.
60. They further clarified that the conditions regarding strategic and commercial management are alternative and not cumulative. In other words only one of the three factors must be fulfilled: (i) either all key decisions should be taken in Poland (including commercial and strategic management), or (ii) the headquarters, or (iii) the senior personnel should be established in Poland.
61. Therefore, according to the Polish authorities, the companies are not restricted to operate exclusively from Poland in order to be eligible to the Polish tonnage tax regime but may have their establishments in other Member States of the Union/EEA.
62. As regards the freedom of establishment, the Polish authorities explained that the shipowner can also be a foreign entrepreneur³⁷ who is engaged in Poland in activities eligible for tonnage tax. In fact, they argued that it is possible to register in the Polish Register of Ships a vessel owned by a citizen of a European Union Member State or a legal person whose seat is in a European Union Member State, as well as a vessel which:
- is at least half-owned by a citizen of a Member State or a legal person whose registered seat is in a Member State, providing that the owner of the ship has his place of residence or the seat of his principal plant or branch in a Member State (may be entered in the Polish Register of Ships in the Permanent Register of Ships on application of all the joint-owners);
 - is owned by an association of capital with registered seat abroad, in which association the citizen of a European Union Member State or the legal person whose registered seat is in a European Union Member State holds share capital, providing that the owner of the ship has his place of residence or the seat of his principal plant or branch in a European Union Member State (may be entered in the Polish Register of Ships in the Permanent Register of Ships on application of the owner).

³⁶ OJ C 13, 17.01.2004, p.3.

³⁷ Within the meaning of the provisions of the Polish Act of 2 July 2004 on freedom of economic activity, Dz U. No 173, item 1807, as amended.

63. The Polish authorities also clarified that foreign persons from the Member States and EEA countries may embark upon and conduct business activities along the same principles as Polish entrepreneurs. In addition, citizens of non-EU/EEA states may also embark upon and conduct business activities along the same principles as Polish citizens if they are legally residing in Poland. Furthermore, foreign entrepreneurs (a foreign person carrying out business activities abroad) may take up business activities in the form of branches and set up representations in Poland (pursuant to the Business Activities Freedom Act).
64. A branch is a separate and organisationally independent part of business activities carried out by the entrepreneur beyond the entrepreneur's seat or principal place of business activity. The Polish authorities argued that opening a foreign entrepreneur's branch is not complicated, and does not require that the foreign entrepreneur meet detailed conditions. As regards representations, they may involve exclusively activities relating to advertising and promotion of the foreign entrepreneur.
65. Based on the above, regarding the Commission's preliminary assessment that the conditions for strategic and commercial management contained in the tonnage tax scheme seem to limit the possibilities for subsidiaries to be established and appear to give rise to problems of *de facto* discrimination and to limit the freedom of establishment, the Polish authorities argued that such conclusion is unfounded and not based on the applicable legislation.

The "All-or-nothing" option

66. In relation to the 5-year lock-in period foreseen in the notified scheme, the Polish authorities underlined that the Guidelines do not set up conditions relating to lock-in periods.
67. In addition, the introduction of the 5-year tonnage tax period establish the possibility of attaining a more rapid effect of the implemented regulations, such as the return of vessels owned by Polish ship-owners to the use of the Polish ensign i.e. the European Union ensign.
68. Poland concluded that in the light of the commitment that after 10 years Poland will once again submit the tonnage tax scheme to the European Commission as an aid scheme, the prolongation of the tonnage tax period to 10 years will lead to difficulties in the appropriate analysis of the introduced scheme, which must be carried out before it is once again submitted by Poland.
69. Nevertheless, as noted in point 42 of the present decision, the Polish authorities subsequently committed to modify their tonnage tax scheme by extending the tonnage tax period for companies to 10 years.

5. COMMENTS FROM INTERESTED PARTIES

70. Only one interested party, *Bugsier Reederei- und Bergungsgesellschaft mbH & Co. KG* (hereinafter *Bugsier Reederei*), reacted by letter of 20 December 2007 to the publication in the Official Journal of the notice summarising the Commission Decision of 11 December 2007.

71. According to *Bugsier Reederei*, towage should not be covered by the Polish tonnage tax regime. In their view, such an inclusion could cause serious distortion of competition in the European towage sector.

6. ASSESSMENT OF THE MEASURE

6.1. Existence of aid under Article 107(1) of the TFEU

72. Under Article 107(1) of the TFEU, any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market.

73. Through the tonnage tax scheme, the Polish authorities grant an advantage, by lowering the corporate or personal income tax that this sector would otherwise have to bear, through State resources, thereby favouring certain undertakings since the measure is specific to the maritime transport sector. Such advantages threaten to distort competition and could affect trade between Member States, since such shipping activities are essentially carried out on a worldwide market on which undertakings from other Member States compete.

74. Therefore, the Commission considers that the notified scheme should be qualified as State aid within the meaning of Article 107(1) of the TFEU.

6.2. Legal basis for the assessment

75. Under Article 107(3)(c) of the TFEU, aid to facilitate the development of certain economic activities may be considered compatible with the internal market, where such aid does not adversely affect trading conditions to an extent contrary to the common interest, and thus provides a possible basis for an exemption from the general prohibition of State aid. In the present case, the Commission considers Article 107(3)(c) of the TFEU to be the appropriate legal basis applicable to the notified scheme.

76. In particular, aid in favour of the maritime sector must be examined in the light of the Guidelines, including the Ship Management Guidelines, which set out the rules for the eligibility of crew and technical management of ships for tonnage tax or other tax arrangements.

6.3. Assessment of compatibility

77. The Guidelines determine the conditions under which Member States are allowed to set up certain State aid schemes to support their maritime transport industry in the pursuit of general objectives, such as:

- improving a safe, efficient, secure and environment friendly maritime transport,
- encouraging the flagging or re-flagging to Member States' registers,

- contributing to the consolidation of the maritime cluster established in the Member States while maintaining an overall competitive fleet on world markets,
- maintaining and improving maritime know-how and protecting and promoting employment for EU/EEA seafarers, and
- contributing to the promotion of new services in the field of short sea shipping following the White Paper on Community transport policy.

78. Section 3.1 fifth subparagraph of the Guidelines specifically mentions tonnage tax schemes as examples of fiscal measures that "*have been shown to safeguard high quality employment in the on-shore maritime sector*", and may thus be considered compatible with the internal market“.
79. However, the Guidelines lay down certain criteria, which such schemes must meet to be considered compatible with the internal market.
80. The criteria had been reviewed in the opening decision and the Commission had doubts as regards several of them. The following gives the final assessment of the Commission as regards each of them.

6.4. Eligibility of natural persons to the tonnage tax; deduction in the case of natural persons liable to tonnage tax of health insurance contributions and of social security contributions from respectively their tonnage tax and the tax base

81. In the decision to initiate the formal investigation procedure the Commission questioned whether natural persons should be eligible for tonnage tax. Indeed, Section 3.1., fourth subparagraph of the Guidelines states that "*the system of replacing the normal **corporate tax system** by a tonnage tax is a State aid*". In fact, natural persons are subject to personal income tax rather than corporate tax. Moreover, the tonnage tax schemes approved so far by the Commission have only covered replacement of corporate tax systems with tonnage tax schemes.
82. Nevertheless, the Commission takes note that the scope of the Guidelines is not limited to only legal persons, but includes all possible entities which carry out maritime transport. Indeed, Section 2.1., first subparagraph of the Guidelines stipulates that "*The Guidelines draw no distinction between types of beneficiary in terms of their legal structure (whether companies, partnerships or **individuals**), nor between public or private ownership, and any reference to companies shall be taken to include all other types of legal entity.*"*This is moreover coherent with the approach followed by EU competition law which only refers to undertakings independently from their legal form.
83. In addition, there will be no distinction in the treatment of natural and legal persons, since the calculation of the tax base will be the same and the same rate of 19% will be subsequently applied to all entities.

* Emphasis added.
* Emphasis added.

84. Therefore, there is no reason to treat differently under the guidelines natural persons and the doubts of the Commission in this respect are alleviated.
85. Moreover, natural persons will not be allowed to further reduce their tonnage tax due (up to the level of paying no tax), since following the commitment undertaken by the Polish authorities, the natural persons will not be able to deduct social security and health insurance contributions from respectively their tonnage tax and tonnage tax base. This will further ensure an equal level of tonnage tax payment for all entities eligible for tonnage tax irrespective of their legal form (natural or legal persons, foreign entrepreneurs, etc.).
86. As regards the possibility for natural persons to deduct social security and health insurance contributions from respectively their tonnage tax and tonnage tax base, the Commission takes note of the commitment undertaken by the Polish authorities according to which this will be removed from the law. This commitment also includes legal persons subject to personal income tax. The Commission welcomes this commitment as such a possibility would run against the rationale of the tonnage tax (replacing the normal profit obtained by deducting real charges from revenues by notional profit) and provide undue advantages. It could also introduce an unjustified distinction in the treatment between natural persons and legal persons.
87. In addition, the Commission considers that the definition of foreign and national entities contained in Article 2(3) of the Tonnage Tax Act does not raise concerns as regards possible discrimination between these entities, excluding any potential disadvantages for the foreign entities with respect to their eligibility to the Polish tonnage tax scheme.

6.5. Eligible main activities

88. As indicated in the decision to initiate the formal investigation procedure, the Commission considers that the coverage by tonnage tax of the international maritime transport of freight and/or passengers is consistent with the Guidelines.
89. Furthermore, as regards the inclusion in the tonnage tax scheme of activities related to transport of freight and/or passengers, the Commission notes that the Guidelines indeed apply to companies carrying out maritime services, i.e. carriage of goods or passengers at sea³⁸, therefore the Guidelines explicitly cover the transport of passengers and/or freight as services eligible for tonnage tax. With respect to sea rescue operations (vessels for the rescue and transport of person at sea) the Commission considers, in line with its decision making practice³⁹, that such services should be eligible for tonnage tax as they are ancillary to and directly related to maritime transport.
90. With respect to towage, the Guidelines stipulate in Section 3.1 fourteenth subparagraph that *"towage" is covered by the scope of the Guidelines only if more than 50 % of the*

³⁸ See Section 2, third subparagraph of the Guidelines, as well as Council Regulation (EEC) No 4055/86 of 22 December 1986 applying the principle of freedom to provide services to maritime transport between Member States and between Member States and third countries (OJ L 378, 31.12.1986, p. 1); and Council Regulation (EEC) No 3577/92 of 7 December 1992 applying the principle of freedom to provide services to maritime transport within Member States (maritime cabotage) (OJ L 364, 12.12.1992, p. 7).

³⁹ See, in particular, State aid N 330/2005 – Lithuania – Aid to shipping companies – Tonnage Tax Scheme, adopted on 19.7.2006, OJ C 90, 25.4.2007, p. 11; State aid N 114/2004 – Italy – Tonnage Tax Scheme for the maritime transport, adopted on 20.10.2004, OJ C 136, 3.6.2005, p. 42.

towage activity effectively carried out by a tug during a given year constitutes "maritime transport". Waiting time may be proportionally assimilated to that part of total activity effectively carried out by a tug which constitutes "maritime transport".

91. With respect to dredging, the Guidelines establish at Section 3.1 sixteenth subparagraph: *"However, fiscal arrangements for companies (such as tonnage tax) may be applied to those dredgers whose activity consists in "maritime transport" - that is, the transport at deep sea of extracted materials - for more than 50 % of their annual operational time and only in respect of such transport activities. "*
92. It must be noted that for both towage and dredging the modifications which the Polish authorities committed to make in their Tonnage Tax Act⁴⁰ will link the eligibility of a tug or a dredger for tonnage tax as to whether at least 50 % of their annual operational time constitutes eligible activities, thus bringing this requirement fully into line with the provisions of the Guidelines.
93. In addition, as regards dredging, the tonnage tax scheme (Article 3(1), fourth indent of the Tonnage Tax Act) applies a definition of the activities carried out by dredgers that constitute maritime transport, i.e. the transport at sea of extracted materials, which is in line with the one set out in the Guidelines. The Commission thus considers that the eligibility criteria for dredging are consistent with the Guidelines.
94. However, as regards towage, the *"condition that at least 50 % of the [operational time]* from the work actually carried out by the tugboat during the course of the year was generated by the provision of towage services other than towage to and from a port or within the port"* (Article 3(1), second indent of the Tonnage Tax Act) is not entirely in line with the Guidelines.
95. Indeed, this provision explicitly excludes towage to reach or get out from a port or within a port, which is in line with the Guidelines⁴¹. However, it cannot be excluded that other towage services such as towage in inland waters or towage at sea without reaching a port may be eligible for tonnage tax. This runs counter to the provisions of the Guidelines, which stipulate that the eligibility for tonnage tax should be limited to only those activities of the tugboats which constitute 'maritime transport', i.e. carriage of goods or passengers at sea. In *Commission vs. Greece*⁴² the Court further clarified that *"Although towage is a service normally provided for remuneration, it does not in principle entail a straightforward carriage of goods or passengers by sea. Rather, it involves assisting the movement of a vessel, rig, platform or buoy. A towing vessel which assists another vessel [...] is assisting the vessel by which the passengers or goods are transported but is not itself the transporting vessel"*⁴³. Therefore, towage activities cannot be considered as constituting maritime transport. Consequently, only those services provided by the tugboats, which directly involve the transport of passengers or goods at sea, could be eligible for tonnage tax.

⁴⁰ See point 20 of the present decision.

* The text is presented in the form it will appear after the planned by the Polish authorities amendment.

⁴¹ In particular with Section 3.1., fourteenth subparagraph of the Guidelines, which states that: *"towage activities which are carried out inter alia in ports, or which consist in assisting a self-propelled vessel to reach port do not constitute 'maritime transport'.*

⁴² C-251/04 from 11 January 2007.

⁴³ Cf. paragraph 31 of the judgement.

96. In light of the above, the Commission does not object to the possibility for tugboats to be eligible for tonnage tax, provided that at least 50 % of the operational time from the work actually carried out by the tugboat during the course of the year was generated by the provision of services which constitute maritime transport.

6.6. Management activities

Technical management and management of crews

97. As far as the technical management and the management of crews are concerned, the Commission has to ensure that the Polish tonnage tax scheme fulfils all the requirements contained in the Ship Management Guidelines. In this respect, the Commission notes the following.
98. Firstly, as regards the requirements that shipmanagement companies should contribute to the economy and employment within the Union (Section 5.1. thereof) and that there should be an economic link between the managed ships and the Union (Section 5.2. thereof), the Polish authorities committed that the Tonnage Tax Act will require that the ship management should be carried out from the territory of the EU and that mainly Union nationals will be employed in land-based activities or ships. In addition, ship management of non-Union ships is excluded from the benefit of the tonnage tax scheme. Therefore, the Commission considers that the conditions set out in Sections 5.1 and 5.2 of the Ship Management Guidelines are fulfilled.
99. Secondly, the Commission acknowledges that Poland is a member of the International Maritime Organisation and it is a party to all relevant international conventions, which it has incorporated in its national legislation. In addition, it fulfils all its obligations as far as the relevant EU law is concerned. Consequently, the Commission considers that the tonnage tax scheme complies with the international and European standards, as out in Section 5.3 of the Ship Management Guidelines.
100. Thirdly, the Commission considers that the condition that shipmanagers should manage ships flying exclusively under the Polish flag is fully in line with Section 5.4. of the Ship Management Guidelines.
101. Fourthly, the Commission notes that even though the Polish tonnage tax scheme will be only applicable to "full" ship managers, i.e. those who carry out simultaneously crew and technical management, since such managers are carrying out also crew management, the particular requirements contained in Section 6 of the Ship Management Guidelines should be also applicable to them. These requirements relate to training as well as to improving social conditions for seafarers.
102. In this respect, the Commission acknowledges that the Polish authorities committed that they will require from each seafarers' employer, be it the ship owner or the ship management company, to comply with the particular provisions of the Maritime Labour Convention, 2006⁴⁴. Therefore, the Polish tonnage tax scheme will fulfil the obligations imposed on crew managers contained in Section 6 of the Ship Management Guidelines.

⁴⁴ Integrated into EU law by Council Directive 2009/13/EC of 16 February 2009 implementing the Agreement concluded by the European Community Shipowners' Associations (ECSA) and the European Transport Workers' Federation (ETF) on the Maritime Labour Convention, 2006, and amending Directive 1999/63/EC (OJ L 124, 20.5.2009, p. 30).

103. In view of the above, the Commission concludes that the requirements contained in the tonnage tax act with respect to management companies are in line with the Ship Management Guidelines.

Strategic and commercial management

104. The Commission takes note of the clarifications made by the Polish authorities in relation to the conditions for strategic and commercial management⁴⁵, and confirms that the conditions contained in the tonnage tax scheme regarding such management are indeed alternative and not cumulative. Thus, in order to be eligible for tonnage tax, only one of the following three conditions should be fulfilled: (i) either all key decisions should be taken in Poland, or (ii) the headquarters should be situated in Poland, or (iii) the senior personnel should be established in Poland.

105. Consequently, the companies will not be restricted to operate exclusively from Poland in order to be eligible for tonnage tax, but may have their establishments in other Member States of the Union/EEA.

106. In light of the above, the Commission considers that the conditions regarding strategic and commercial management contained in the Polish tonnage tax scheme will not prevent companies from other EC/EEA states to benefit from the Polish tonnage tax. Moreover, these conditions are proportional to the pursued objective to verify that tonnage tax companies actually contribute to the economic activities and employment in Poland, which is in line with the Guidelines.

Chartered-in vessels

107. The Commission takes note of the clarifications made by the Polish authorities regarding the requirements governing the inclusion of chartered-in vessels in the tonnage tax scheme.

108. In this respect, the Commission confirms that it is in line with the Guidelines not to include in the tonnage tax scheme companies which limit their activities only to chartering-in of ships on a time and/or voyage basis.

109. The Polish authorities further explained that only operators who carry out at the same time the commercial management, technical management and management of crews regarding a certain chartered-in vessel, will be eligible for tonnage tax. The Commission, therefore, understands that only chartered-in vessels on a bareboat basis will be eligible for tonnage tax, being the only kind of chartered-in vessels for which all the three functions will be exercised. Thus, it has no objections with respect to the eligibility for tonnage tax of chartered-in vessels on a bare-boat basis, as such vessels are assimilated as own vessels for the purposes of the tonnage tax schemes.

6.7. Ring-fencing measures

110. The Commission confirms its initial finding in the decision to initiate the formal investigation procedure⁴⁶ that the ring-fencing measures in respect of verification of intra-group transactions based on the arm's length principle and keeping separate accounting

⁴⁵ See points 31-34 of the present decision.

⁴⁶ See in particular points 102-104 thereof.

between eligible and non-eligible activities are sufficient in order to prevent any possible spill-over into non-shipping activities and tax evasion.

111. Therefore, the Commission will only assess below the rules regarding the "all or nothing option".
112. The tonnage tax legislation provides that the choice of entering the notified scheme must be made jointly by all companies – tax liable in Poland - being part of a group of undertakings for all their eligible activities.
113. The rules established in case of a merger, clarified in point 39 of the present decision, ensure that the newly formed shipping company should opt in for the tonnage tax as long as at least one of the participating in the merger ship-owners was liable to tonnage tax.
114. With regard to the rules on cessation of activities, limiting companies to opt again for tonnage tax until three tax years have elapsed, the Commission considers that they are well designed to avoid "cherry-picking", so companies will not be able to opt for either corporation tax or tonnage tax during different periods of their economic activities, depending on which tax system is more advantageous.
115. In addition, the Commission notes that the commitment to amend the tonnage tax scheme so that companies should maintain vessels under tonnage tax for a period of 10 years is consistent with the existing tonnage tax schemes already approved by the Commission and, thus addresses the concerns raised by the Commission in its decision to initiate the formal investigation procedure.
116. To conclude, the Commission considers that the tonnage tax scheme under examination satisfies the criterion of the 'all or nothing' option applicable to eligible activities.

6.8. Compliance with aid ceiling

117. Chapter 11 of the Guidelines indicate that "the total amount of aid granted under Chapters 3 to 6 [that is to say tonnage tax, exemption from the payment of income tax and social contributions for seafarers, aid to crew relief, investment and regional aid] should not exceed the total amount of taxes and social contributions collected from shipping activities and seafarers".
118. According to the information provided by the Polish authorities, there is no existing aid scheme in Poland that would be capable of adding State aid to the benefits of the present scheme. Therefore, the Commission concludes that the aid ceiling provided for in Chapter 11 of the Guidelines will be respected.

6.9. Reports

119. The Polish authorities agreed to provide the Commission with annual reports on the implementation of the tonnage tax scheme and on its effects on the Union registered fleet and on the employment of Union seafarers, as required by Chapter 12 of the Guidelines.

HAS ADOPTED THIS DECISION:

Article 1

The aid which Poland is planning to implement on the basis of the Polish Tonnage Tax Act is compatible with the internal market subject to the condition set out in Article 2.

Article 2

Towage activities shall be eligible for tonnage tax, provided that at least 50 % of the operational time from the work actually carried out by each tugboat during the course of the year was generated by the provision of services which constitute maritime transport.

Article 3

Poland shall inform the Commission, within two months of notification of this Decision, of the measures taken to comply with it.

Article 4

This Decision is addressed to the Republic of Poland.

Done at Brussels,

For the Commission

Antonio TAJANI

Vice-President of the Commission

Notice

If the decision contains confidential information which should not be published, please inform the Commission within fifteen working days of the date of receipt. If the Commission does not receive a reasoned request by that deadline, you will be deemed to agree to publication of the full text of the decision. Your request specifying the relevant information should be sent by registered letter or fax to:

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