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Enhancing National Registered Tonnage: Tweaking Tonnage Tax

Sujeet Samaddar & Vanshika Goyal

Introduction

As the world's most populous nation and the 4th largest economy, India has an important role in global markets – both as a recipient and contributor of a variety of commodities – mostly carried on merchant ships. In 2024, the country's merchandise imports reached US$ 701.6 billion[1], with seaborne import volumes growing at a compound annual growth rate (CAGR) of 2.9 per cent over the past decade – outpacing the global average of 1.7 per cent – and reaching approximately 830 million metric tons (MMT), or 7 per cent of the global total[2]. Further, India is the world's second-largest importer of several critical cargo categories including 19 per cent of global coal imports, 12 per cent of crude oil, and 16 per cent of liquefied petroleum gas (LPG)[3]. These trends are expected to continue, with cumulative imports projected to rise to around 1,200 MMT by 2035[4]. In comparison, India's merchandize export value reached US$ 442.6 billion[5] and volumes have grown at a more moderate pace, reaching about 225 MMT in 2024, yet representing a strong 2 per cent share of global exports[6].

Amid this expansion India's maritime sector has emerged as a strategic enabler of commerce, connectivity, and international cooperation. Between 2000 and 2025, India's share in global exports and imports grew more than twofold and threefold, respectively. However, despite this surge in trade, the share of Indian-

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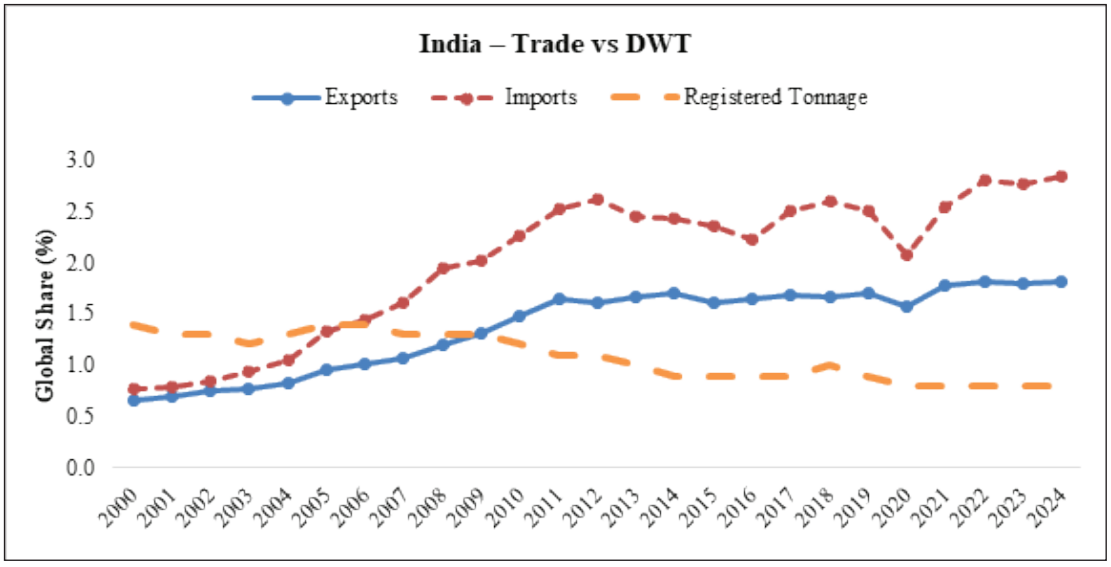
Figure 1: India's Global Share in Trade and Registered Ship Tonnage



Source: Authors compilation from UNCTAD Trade data[9]

flagged tonnage in global shipping has declined over the same period (Figure 1), registering only a modest y-o-y growth of 1.3 per cent in 2024. As a consequence, over 93 per cent of international cargo with Indian origin or destination and around 39 per cent of total Indian cargo, including coastal and offshore shipments, is carried on foreign-flagged vessels[7] resulting in an estimated annual freight outflow of US$75 billion[8].This reliance on foreign-flagged vessels may only grow unless judicious policy reforms are implemented.

Recognising the importance of the maritime sector, the Ministry of Ports, Shipping and Waterways prepared the Maritime *Amrit Kaal* Vision Document 2047 (MAKV47). The MAKV47 among its 11 themes identifies the requirement to 'Enhance Net Tonnage' of the Indian Flagged Fleet and align the shipping sector with the need for *Atma Nirbharta* in the pursuit of the *Viksit Bharat* vision. Notably, it meticulously outlines the action points to achieve these objectives and associated goals.

MAKV47 sets an ambitious target for India to rank among the top 5 countries globally in terms of deadweight tonnage (DWT)[10] by 2047. Singapore is presently ranked 5th with 152 million DWT, accounting for a 6.2 per cent share of global tonnage, and has been registering an average growth rate of 2.9 per cent between 2020 and 2025. India is ranked 20th and has 18.2 million DWT, accounting for a 0.7 per cent share of global tonnage, and with an average growth rate of about 0.6 per cent in the same period[11]. Figure 2 presents the registered DWT for Singapore and India from 2020 to 2025, with values for 2026-2047 representing forecasts. Assuming that Singapore's present growth rate is maintained until 2047, India's registered DWT must grow at a CAGR of 13.2 per cent in this period to match the projected DWT of Singapore by 2047 to assume the 5th rank in global shipping tonnage.

An action point to achieve this objective lies in reviewing the direct tax policy, specifically the tonnage tax scheme, which the MAKV47 document

1 UNCTADstat Data centre, International Trade Data, Merchandise Total Trade and Share; Source: https://unctadstat.unctad.org/datacentre/dataviewer/US.TradeMerchTotal

2 Clarksons, "India's Growing Maritime Role"; Stephen Gordon; Retrieved from: https://www.clarksons.com/home/news-and-insights/2025/india-s-growing-maritime-role/

3 *Ibid.*

4 *Ibid.*

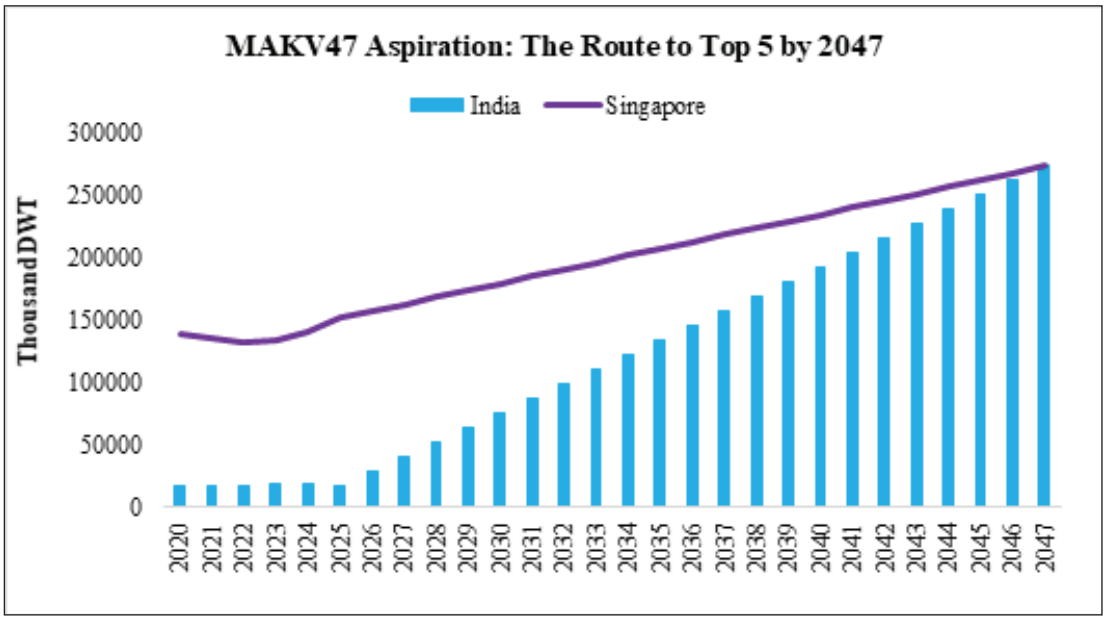
5 UNCTADstat Data centre, International Trade Data, Merchandise Total Trade and Share; Source: https://unctadstat.unctad.org/datacentre/dataviewer/US.TradeMerchTotal

6 Clarksons, "India's Growing Maritime Role"; Stephen Gordon; Retrieved from: https://www.clarksons.com/home/news-and-insights/2025/india-s-growing-maritime-role/

7 Maritime Amrit Kaal Vision 2047, Chapter 13 "Enhance India's Tonnage", pp 348; Source: https://shipmin.gov.in/sites/default/files/Maritime%20Amrit%20Kaal%20Vision%202047%20%28MAKV%202047%29_compressed_0.pdf

8 *Ibid.*

Figure 2: MAKV47 Aspiration: Achieving 5th Rank by 2047



Source: Authors calculation based on UNCTAD Merchant Fleet Data

highlights as, '*Indian-flagged vessels face a comparatively higher tax burden OR a tonnage tax scheme including mandatory training obligations, with the annual cost of training a cadet estimated at INR 30 lakh, which is to be borne by the Indian registered shipping companies', thereby favouring foreign-flagged ships*[12], who do not have to carry this 'liability' and giving them a competitive edge. It also notes that "*In spite of introduction of 100 per cent FDI in shipping, tonnage tax regime and various incentives like ROFR for Indian cargoes and coastal cargo reservations, there is no appreciable increase in Indian-flagged tonnage*[13]".

This policy brief proposes policy interventions for 'Enhancing India's Tonnage' by reforming the current tonnage tax regime.

Taxation of Shipping Companies in India

Tax policies have a significant impact on business decisions for a shipping

Table 1: Indian Tax Regimes for Shipping Companies[14]

Tax Regime	Applicability	Basis of Taxation	Key Features
Section 44B	Non-resident shipping companies	7.5% of gross receipts. Taxed at prevailing Corporate Income Tax rates.	Presumptive income; no deductions
Section 172	Non-resident ships on Indian voyages	7.5% of gross receipts. Taxed at prevailing Corporate Income Tax rates.	Voyage-wise summary assessment
Tonnage Tax Scheme (TTS) Section 115V	Indian resident companies operating qualifying ships	Based on presumptive daily net tonnage income of ships and taxed at prevailing Corporate Income Tax rates.	Optional regime; fixed daily income rates

Source: Income Tax Act, 1961.

[9] UNCTADstat Data centre, Import & Export – International Trade Data, Merchandise Trade and Registered Tonnage - Maritime Transport, Merchant Fleet; Source: https://unctadstat.unctad.org/datacentre/dataviewer/US.MerchantFleet

[10] The vessel capacity is measured by:-
1. *Deadweight Tonnage (DWT)* which represents the total weight a ship can safely carry, including cargo, fuel, water, crew, and other supplies:-
2. *Gross Tonnage (GT)* measures the ship's overall internal volume, used for regulatory and port fee purposes. It applies to the vessel and not cargo;
3. *Net Tonnage (NT)* measures the usable cargo-carrying capacity of a ship, derived from gross tonnage after deducting spaces not used for cargo or passengers. It represents the available space for accommodation of passengers and stowage of cargo.

[11] UNCTADstat Data centre, Maritime Transport, Merchant Fleet, "Merchant fleet by flag of registration and by type of ship, annual"; Source: https://unctadstat.unctad.org/datacentre/dataviewer/US.MerchantFleet

company, including fleet registration location, capital investment in fleet expansion, compliance costs, etc. India offers three distinct regimes for taxing shipping income as summarised in Table 1.

The different regimes cause complexity in taxation and are contradictory to ease of doing business. These alternate schemes of taxation require substantial professional advice to identify required documentation, mandatory 'supporting' and regulatory compliance to opt in or opt out of such regimes etc. Taxation under Section 44B and Section 172 of the IT Act, leads to high effective tax rate but have less compliance conditions but more accounting protocols. The tonnage tax scheme under Section 115V provides clear and certain taxation to Indian companies' but imposes several 'qualifying' conditions including creation of reserves, mandatory training requirements, documentation, crew restrictions etc.

Tonnage Tax

Given the industry's unique challenges – such as mobile assets, global operations, and multicurrency transactions – many maritime nations have adopted tonnage tax regimes, allowing shipping companies to compute their tax liability based on presumptive income as a function of vessel tonnage.

The core principle of tonnage taxation is that the tax payable by 'qualifying' shipping companies[15] is calculated based on the Net Tonnage (NT) of 'qualified' ships[16] instead of the 'actual' accounting profits from the operations of the vessel. Therefore, the NT of the vessel, multiplied by a fixed amount of deemed profit per ton per sailing day, determines the presumptive revenue, which is then subject to prevailing corporate income tax (CIT) rates applicable in a country to arrive at the tax liability for that ship.

Tonnage tax schemes are modelled along two approaches:

- *Model A*: Under Model A, tonnage income is first calculated on a per-day per-ton basis, grossed over the total operational days. Thereafter, the tax liability is determined by applying the prevailing CIT rate to the annual deemed tonnage income for that ship. Other conditions of mandatory training, crew compositions, transfers to tonnage tax reserve accounts etc, are compliance requirements to avail the benefits of this tonnage tax scheme. Some countries that follow Model A include Denmark, India, Germany, Singapore (since 2025), and the United Kingdom.
- *Model B*: Annual Tonnage Tax liability is directly levied on the registered NT of the ship, irrespective of income, operational days, etc. Some countries place restrictions such as crew composition both ashore and afloat, residency requirements, etc. Model B is adopted by Cyprus, Hong Kong, Liberia, Malta, the Marshall Islands (RMI), Norway, and Singapore.

Maritime Profile of Select Countries

Given the policy brief's focus on enhancing India's registered tonnage through tax reforms, it is crucial to evaluate India's tonnage tax regime in comparison with select countries. A maritime profile of the same is presented in Table 2.

India holds 20th position globally in registered DWT with 0.7 per cent global share in terms of capacity, third-lowest, ahead of only Germany and the

[12] Maritime Amrit Kaal Vision 2047, Chapter 13 "Enhance India's Tonnage", pp 358; Source: https://shipmin.gov.in/sites/default/files/Maritime%20Amrit%20Kaal%20Vision%202047%20%28MAKV%202047%29_compressed_0.pdf

[13] Maritime Amrit Kaal Vision 2047, Chapter 13 "Enhance India's Tonnage", pp 351; Source: https://shipmin.gov.in/sites/default/files/Maritime%20Amrit%20Kaal%20Vision%202047%20%28MAKV%202047%29_compressed_0.pdf

[14] Income Tax Act, 1961; Source: https://www.indiacode.nic.in / bitstream / 123456789 / 2435/1/a1961 - 43.pdf

[15] "qualifying company" means a company referred to in section 115VC of IT Act.

[16] "qualifying ship" means a ship referred to in section 115VD of IT Act.

Table 2: Maritime Profile of Select Countries[17]

Country	Registered Tonnage Profile					
	Rank	Capacity ('000 DWT)	Capacity Share (%)	Vessels	Vessel Share (%)	Average Vessel Size (DWT)
Model A						
India	20	18,021	0.7	1,928	1.7	9,346
Germany	29	8,711	0.36	602	0.5	14,470
Denmark	14	25,641	1.1	686	0.6	37,377
UK	25	10,327	0.4	794	0.7	13,006
Model B						
Cyprus	12	34,297	1.4	1,032	0.9	33,233
Hong Kong (China)	4	2,03,048	8.3	2,513	2.3	80,799
Liberia	1	4,24,063	17.4	5,562	5.0	76,243
Malta	7	1,13,194	4.6	1,949	1.8	58,077
Norway	16	21,354	0.9	1,731	1.6	12,336
RMI	3	3,05,471	12.5	4,254	3.9	71,808
Singapore	5	1,52,344	6.2	3,098	2.8	49,174

Source: UNCTAD Statistics Data Centre.

United Kingdom. However, it has the lowest average vessel size at 9,346 DWT among the selected countries, indicating a predominance of smaller vessels with lower tonnage capacity in the Indian fleet. In contrast, leading registries such as Liberia, the Marshall Islands (RMI), Hong Kong, and Singapore report an average vessel size of 69,506 DWT, highlighting the scale and type of tonnage India must target to enhance its competitiveness in global shipping.

Additionally, the UNCTAD report *Review of Maritime Transport 2024*[18] notes that the average vessel size across all ship types has been increasing as presented in Table 3. For example, less than four year old bulk carriers have an average vessel size of 83,752 DWT while it is only 50,202 DWT for more than twenty year old vessels.

This underscores the need for not only to expand the Indian-flagged fleet but to do so strategically – by adding larger vessels that can significantly uplift the average vessel size and operational capacity. Targeting larger vessels provide several benefits:

First, for *strategic autonomy*, India's import dependency on crude oil and LNG is 87 per cent and 50 per cent, respectively. To secure its energy requirements, India must reduce its dependence on foreign-flagged tankers and increase its use of

Table 3: Age-wise Average Size of Ships by Vessels Types (DWT)

Age Bracket (Years)→ Types of Vessels ↓	0 - 4	5 - 9	10 - 14	15 - 19	≥ 20
Bulk Carriers	83,752	80,858	75,558	68,374	50,202
Container Ships	68,382	81,065	63,231	42,856	28,566
General Cargo	6,246	5,777	6,673	4,715	2,743
Oil Tankers	88,519	74,244	66,393	63,151	20,977
Other Ship Types	7,942	7,144	4,554	6,764	3,109
All Ships	36,893	34,007	32,488	25,415	7,213

Source: Review of Maritime Transport, 2024.

[17] UNCTADstat Data centre, Maritime Transport, Merchant Fleet, " Merchant fleet by flag of registration and by type of ship, annual"; Source: https://unctadstat.unctad.org/datacentre/dataviewer/US.MerchantFleet

[18] UNCTAD, Review of Maritime Transport, 2024, Chapter II, "World Shipping Fleet and Services," Table II.3, pp 59; Source: https://unctad.org/system/files/official-document/rmt2024en.pdf

Indian-owned or registered tankers. For commodities, particularly coking coal, fertilisers, edible oil, and ores, a similar transition from foreign to Indian bulkers is an emerging necessity. Merchandise carried in container ships has a similar challenge, with Indian flagged container ships accounting for only 0.003 per cent of the global fleet.

Second, is the requirement to further *lower logistics costs,* freight payout to foreign carriers elevates the logistics costs, making goods expensive and less competitive in both domestic and international markets.

Third, a *lower outgo of foreign exchange is desirable.* The annual freight outflow to the tune of US$75 billion[19] could be reduced significantly, saving forex, by rupee payments to Indian ships, and this would also encourage imports on Free on Board (FoB) and Exports on Cost Insurance and Freight (CIF), a declared policy of the government but largely not implemented[20].

Fourth, *larger Indian crew employment,* this would further enhance the domestic employment opportunities in the maritime sector, spanning across onboard and ashore appointments.

Fifth, promoting *ship repair and ship building,* will ultimately bring shipbuilding orders to domestic shipyards, along with uplifting the ancillary activities and the shipbuilding ecosystem, and in turn open local ship repairing.

Sixth, *incentivizing new build ships* with clean and green fuels will encourage scrapping of older ships for ship recycling in India, supported with the credit notes for 'build in India' ships[21].

Seventh, *other multipliers,* such as in the shipping services sector – finance, charter, brokerage, insurance, shore support – including bunkering and a variety of port-related businesses - will all witness a spurt in economic activity.

Tonnage Tax and DWT

Against this background, an investigation is essential to assess the impact of the introduction of tonnage tax regime on national DWT in the select countries and identify causality between the two. Accordingly, the merchant fleet data of the selected countries has been analysed from 1980 to 2025 (Figure 3). The solid line represents registered DWT prior to the introduction of the tonnage tax, while the dotted line reflects DWT following its implementation in respective countries.

It can be observed from Figure 3 that all countries experienced an increase in DWT post-implementation of tonnage tax regimes, with those adopting the Model B tonnage tax regime showing particularly strong growth in registered DWT. This analysis suggests some causality between registered tonnage and tonnage taxation, though several other factors influence the registered tonnage in a country. It is important to note that the analysis does not quantify the causality between the two variables, but rather observes the trend in DWT growth following the introduction of tonnage taxation.

Tonnage Tax in India – Computation and Benchmarking

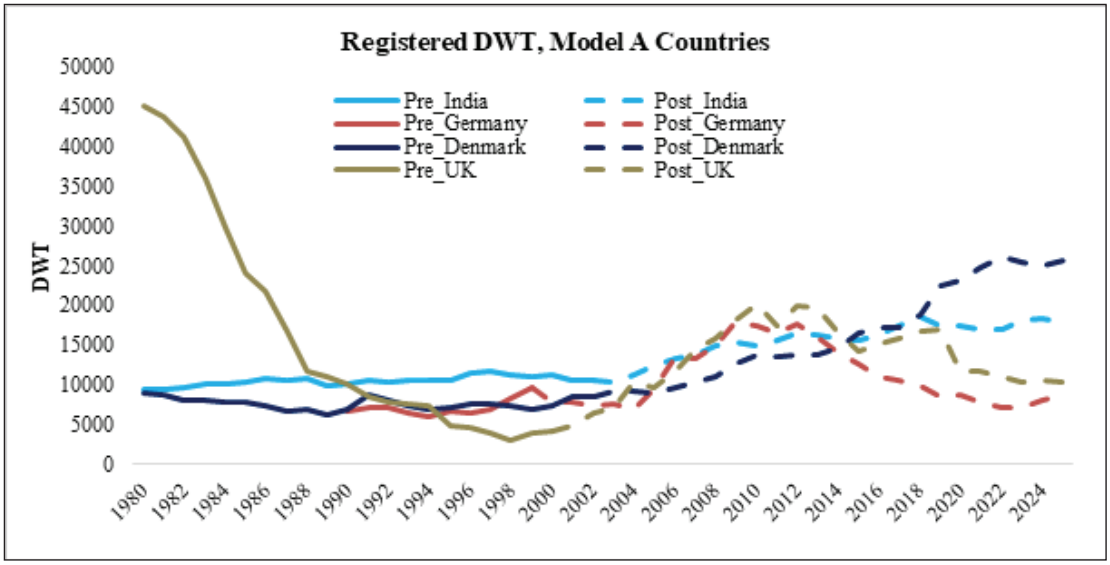
India adopted the tonnage taxation under Model A and introduced the Tonnage Tax Scheme under Chapter-XII G (Special Provisions Relating to Income of Shipping Companies)[23] of the Income

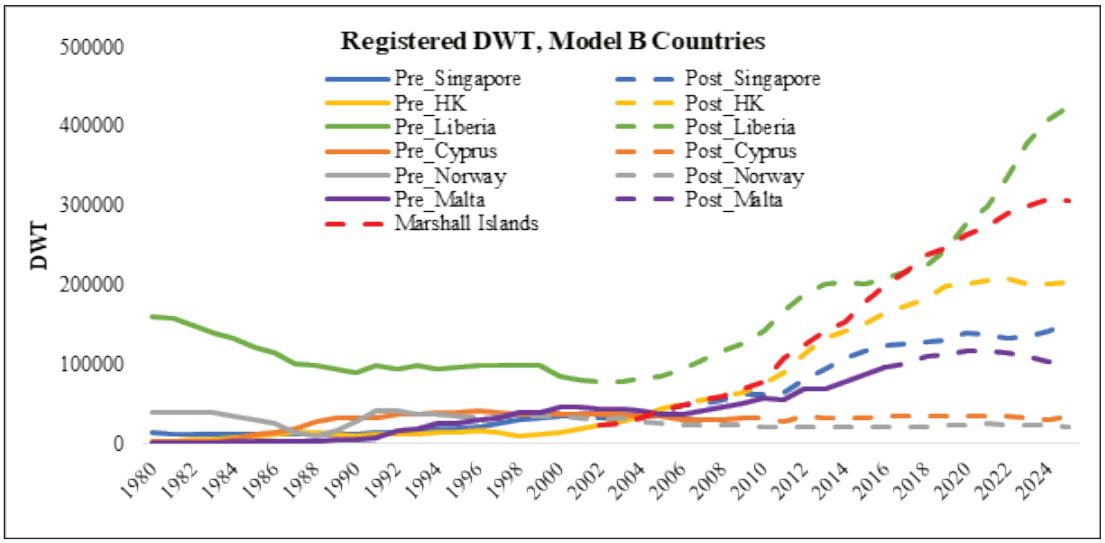
[19] Maritime Amrit Kaal Vision 2047, Chapter 13 "Enhance India's Tonnage", pp 348; Source: https://shipmin.gov.in/sites/default/files/Maritime%20Amrit%20Kaal%20Vision%202047%20%28MAKV%202047%29_compressed_0.pdf

[20] *Ibid* (pp 353).

[21] Union Budget boosts Shipbuilding with New Mega Clusters in India: Sonowal. Source: https:// www.pib.gov.in/PressReleasePage.aspx?PRID=2098573

Figure 3: Tonnage Tax Regimes and DWT in Model A and Model B Countries





Source: Authors compilation from UNCTAD Trade data.[22]

Tax Act, 1961 (Act), in 2004, with effect from Assessment Year 2005-06. Section 115 VG describes the methodology to compute the tonnage income, with sub-section (3) presenting the daily tonnage income rates for qualifying ships (Table 4).

Shipping Profile of India. The summary profile of the Indian merchant marine in terms of DWT is as shown in Table 5[24]. It can be seen that the highest number of ships are placed in the less than 1000 tons category and larger vessels number only 113.

Computation of Tonnage Tax. The tonnage tax income for registered vessels in India was estimated using the methodology prescribed in the Act. Certain assumptions were made regarding the analysis. First, all shipping companies are qualified companies opting for the scheme. Second, according to

[22] UNCTADstat Data centre, Maritime Transport, Merchant Fleet, "Merchant fleet by flag of registration and by type of ship, annual"; Source: https://unctadstat.unctad.org/datacentre/dataviewer/US.MerchantFleet.

[23] Government of India, Income Tax Act, 1961, Section XII-G "Special Provisions Relating to Income of Shipping Companies", pp 511 to 523; Source:https://www.indiacode.nic.in /bitstream / 123456789 / 2435/1 / a1961 - 43.pdf

[24] Ministry of Ports, Shipping, and Waterways, Indian Shipping Statistics 2024, "Table 1.11 "List of Vessels Registered for Indian Trade (As on 31st December, 2024)", pp 76 – 135; Source: https:// shipmin.gov.in /sites/default/files / ISS%20Final%20 2024.pdf

Table 4: Daily Tonnage Income for India

Qualifying Ship having NT	Daily Tonnage Income Rates
Up to 1,000	INR 700 for each 100 tons
Exceeding 1,000 but not more than 10,000	INR 700 *plus* INR 53 for each 100 tons > 1,000 tons
Exceeding 10,000 but not more than 25,000	INR 5,470 *plus* INR 42 for each 100 tons > 10,000 tons
Exceeding 25,000	INR 11,770 *plus* INR 29 for each 100 tons > 25,000 tons

Source: Income Tax Act, 1961, Chapter XII-G.

Table 5: Slab-wise Profile of Vessels Registered in India

Slab (tons)	<1,000	1,001 to 10,000	10,001 to 25,000	>25,000
No. of Ships	915	332	159	113
Average GT	506	4210	29150	61638

Source: Authors' calculation based on Indian Shipping Statistics, 2024.

the 'qualifying ships' definition, only ships with a capacity of NT≥ 15 have been factored in. Third, a total of 1,519 'qualifying ships' have been identified[25]. Fourth, the NT has been estimated as 60 per cent of the GT of a ship[26]. Fifth, for analytical consistency, 365 operating days have been considered[27] for all slabs and companies. Sixth, the daily tonnage income was calculated based on the average NT of each slab, using the prescribed methodology and assumptions. Finally, the resulting annual tonnage income was subject to the prevailing CIT of 25.168 per cent,[28] to determine the tax liability for a 'qualifying ship' of the computed average NT. The tax liability was then aggregated for the 'slab' and further combined for all the 1,519 qualifying ships. The analysis reveals that the best possible cumulative annual presumptive income (since not all ships would be operating for 365 days a year) is of the order of ~INR 138.05 crore, providing estimated tonnage tax revenue of ~INR 34.75 crore (Table 6).

To illustrate, the average NT for the slab with NT >25,000 is 37,000. For such a vessel, the daily tonnage income is ~INR 15,250, the annual tonnage income is ~INR 55.66 lakh, and the effective tonnage tax liability is ~INR 14.01 lakh. For 113 vessels (the total number of vessels in this category), the corresponding cumulative annual tonnage income is ~INR 62.90 crore, and the effective tonnage tax liability is ~INR 15.83 crore computed at the prevailing CIT of 25.168 per cent.

Benchmarking

The tonnage tax schemes of the sample countries are then compared with India's tonnage tax scheme, under both taxation models to highlight differences in tax liabilities for the same NT.

The estimated tonnage tax has been computed using each country's tonnage tax formula for the same NT (the average NT of that category for India) in each of the slabs mentioned in Table 6. The estimated tonnage tax liability payable for corresponding NT (300NT, 2500

[25] Total vessels registered in India are 1,545. After calculating NT as 60 per cent of GT, only 1,519 vessels have NT ≥ 15 tons.

[26] NT is determined by a formula that considers the ship's size and capacity, taking into account the space available for cargo, passengers, and other operational needs. Empirically, it is taken as 50% of DWT. Since the DWT is not available for certain vessels, NT has been estimated from GT and is usually taken as 60 per cent of the GT.

[27] Tonnage tax in Model B does not factor operating days and considers only NT; to make the comparison more robust, a vessel has been considered in operations for 365 days.

[28] Section 115BAA, I-T Act 1961 describes the effective CIT as 22 per cent plus applicable surcharges and Cess of 3.68 per cent.

Table 6: Slab-wise Tonnage Income and Tax Collected in India

Slab	<1,000 tons	1,001 to 10,000 tons	10,001 to 25,000 tons	>25,000 tons
No. of Ships (n)	915	332	159	113
Average GT (a)	506	4210	29150	61638
Average NT: 60% of(a)	304	2526	17490	36983
Rounded-Off NT[29] (r)	300	2500	17500	37000
Daily Tonnage Income (INR) (i)	210	1,495	8,620	15,250
Operational days (d)	365	365	365	365
Annual Tonnage Income (INR) (A) (d x i)	76,650	5,45,675	31,46,300	55,66,250
Total Income (INR) (I = n x A)	7,01,34,750	18,11,64,100	50,02,61,700	62,89,86,250
Total Income (INR)				**138,05,46,800**
Tonnage Tax per vessel (INR) (T = A x CIT rate)	19,291	1,37,335	7,91,861	14,00,914
Annual Tonnage Tax Collection for each slab (INR) (I x CIT rate)	1,76,51,514	4,55,95,381	12,59,05,865	15,83,03,259
Total Tonnage Tax Collection (INR)				**34, 74,56,019**

Source: Authors' calculations.

NT, 17,500 NT, and 37,000NT) for each of the selected countries is mentioned in Table 7.

Table 7: Country-wise Annual Tonnage Tax Payable for indicated NT

Model	Countries	CIT Rate (%)	Slab-wise Tonnage Tax (INR)			
			300 NT	2,500 NT	17,500 NT	37,000 NT
A	India	25.168%	19,291	1,37,335	7,91,861	14,00,914
	Singapore	17%	11,057	73,715	3,50,148	5,89,723
	Germany	15.83%	15,783	1,11,794	2,01,402	5,56,512
	Denmark	22%	28,091	1,94,479	10,00,108	16,18,463
	United Kingdom	20%	15,374	1,08,898	5,89,329	9,35,240
B	Singapore	N/A	6,600	33,000	2,31,000	4,88,400
	Hong Kong		15,000	67,500	5,80,000	7,75,000
	RMI		42,500	42,500	2,52,875	4,71,750
	Liberia		78,985	89,756	5,10,096	6,97,928
	Cyprus		10,841	82,215	4,61,706	7,62,627
	Norway		7,884	1,05,120	7,62,120	12,35,160
	Malta		2,47,500	2,47,500	4,53,420	6,20,730

Source: Authors' calculations.

[29] Sub-section (5) under Section 115VG of Chapter XII-G provides rules for 'rounding off' the tonnage.

Singapore (under Model B), Liberia, and Malta impose a fixed minimum tonnage tax rate for NT<500, NT <2,200, and NT <6,250, respectively. Hong Kong and Singapore (under Model B) have capped the maximum tax payable for vessels with NT >50,000 and NT >24,000, respectively. The tax liability was then converted to INR using approximate exchange rates to better appreciate the different regimes.

The analysis indicates that after Denmark, India imposes a higher tax on each corresponding NT. While Denmark has the highest rates, it has a national registered tonnage of 25 million DWT[30], as compared to India's 18 million DWT, partly due to a lower tax burden on higher tonnage. In contrast, countries like Liberia, RMI, Hong Kong, and Singapore, among the top 5 flag registries, collectively account for 45 per cent of global DWT while maintaining lower tonnage tax rates[31]. These Model B regimes collectively incentivize ship registration through competitive taxation. India has a lower tax burden for NT≤ 1,000 and this is reflected in overall shipping statistics for India, where around 60 per cent of the fleet (by number of vessels) is concentrated in this slab.

Other Related Issues

In addition to the higher tax liability in India, other restrictive and unfavourable requirements exist that create several compliance hurdles. First, maintenance of detailed accounting documents, excluding deductions and set off, calculation of depreciation on capital assets, chargeable gains, treatment of common costs on 'reasonable' basis, operating expenses, etc., which are some inputs to determine the amount of 'book profits' towards transfer to the tonnage tax reserve account, mandated to be a minimum of 20 per cent and which is not transferable to the general reserve since its utilisation is highly restricted. Second, there are mandatory training requirements for trainee officers. Third, specific charter limits for charter – out vessels. Fourth, section 115VI of Chapter XII-G is highly subjective and creates scope for arbitrary interpretations. Fifth, the requirement for segregation of relevant tonnage income from operating income requires the number of operational days to be recorded separately. Sixth, estimation of common costs, exclusion of loss, and other similar provisions are a complex exercise by itself and are subject to statutory tax audits.

Recommendations

Since the core objective is to enhance the national registered shipping tonnage, one pathway is reforming and rationalising the existing tonnage tax regime. Transitioning to a simplified Model B structure would offer a more predictable and streamlined tax system aligned with global best practices – marking a shift from the current Model A methodology of taxing deemed tonnage income.

In line with Model B countries, a simplified and compliance-friendly tonnage tax regime could yield multiple benefits, as outlined in Table 8.

The strategy to enhance national registered tonnage and to achieve better control on carriage of goods (particularly to ensure that imports are FOB and exports are on CIF basis) requires a tax slab rate that would encourage large vessels to register in India while making smaller ships more competitive in coastal trade.

[30] UNCTADstat Data centre, Maritime Transport, Merchant Fleet, "Merchant fleet by flag of registration and by type of ship, annual"; Source: https://unctadstat.unctad.org/datacentre/dataviewer/US.MerchantFleet

[31] *Ibid*

Table 8: Summary of Benefits of Reformed Tonnage Tax Scheme for India

Benefit	Impact
Simplified Compliance	Easier for companies to plan and file returns
Predictable Tax Liability	Encourages fleet expansion and long-term investment
Global Competitiveness	Aligns with regimes of leading Maritime in Singapore, UK, EU
Reduced Litigation	Fewer disputes over classification and applicability
Policy Clarity	Easier for regulators to monitor and enforce compliance

Source: Authors' compilation.

The following policy recommendations are, therefore, proposed:

- Transition from Model A to a simplified Model B system, which abolishes the tonnage-income computation and instead charges a fixed annual fee per NT along with the one-time registration fee.
- No need to maintain records of days of operation.
- No tonnage reserve account, no minimum training requirement, no complex compliance conditions, and no special accounting rules.
- Exemption for vessels with a capacity of up to 100 tons[32] – No tonnage or any other tax may be paid by the owners, charterers, or managers of these vessels – to encourage small businesses, though registration and licence fees would be payable as applicable.
- Chapter XII-G, presenting the "Special Provisions Relating to Income of Shipping Companies," promulgated in FY 2004, is ripe for review as the law is lengthy, complicated, and requires restructuring to align with the modern shipping ecosystem.
- The MAKV47 document identifies the 'Green Maritime Sector' as a key theme, and also recommends the introduction of green initiatives, including tonnage tax rebates for compliant vessels. The introduction of a special green tax rebate will also consolidate India's stewardship for the cause of global warming by lowering emissions from its shipping industry. Therefore, Indian-flagged vessels adopting alternative (clean) fuels for propulsion should be eligible for a 33 per cent reduction in the proposed tonnage tax rates.

Table 9: Proposed Tonnage Tax Rates in INR/NT

Slabs (Net Tonnage)	Regular Tax Amount (INR/NT)	Green Tax Amount (INR/NT)
Up to 1,000 tons*	35	23.5
Next 1,001 to 10,000 tons	30	20.1
Next 10,001 to 25,000 tons	24	16.1
Next 25,001 to 40,000 tons	17	11.4
Next > 40,000 onwards	9	6.0

Note: * Vessels of less than100 NT are exempt

Source: Authors' calculations.

[32] There are only 220 vessels (between 15 to 100 NT) with a cumulative NT of 12599 tons – mostly small businesses of motor boats, passengers, barge etc. Source: Ministry of Ports, Shipping, and Waterways, Indian Shipping Statistics 2024, "Table 1.11 "List of Vessels Registered for Indian Trade (As on 31st December, 2024)", pp 76 – 135; Source: https://shipmin.gov.in/sites/default/files/ISS%20Final%202024.pdf

After careful consideration and analysis of multiple models, the following tonnage tax rates in INR/NT are proposed (Table 9) as amendment to existing Section 115VG of the IT Act, 1961.

Under the proposed tonnage tax regime, the tax liability for a vessel of 37,000 NT would be computed as follows (Figures in INR):

1) First, 1,000 tons = 35,000 (35*1000)
2) Next, 9,000 tons = 2,70,000 (30*9000)
3) Next, 15,000 tons = 3,60,000 (24*15000)
4) Next, 12,000 tons (37,000-25,000 tons) = 2,04,000 (17*12000)

Total (1+2+3+4) = 8,69,000

This would reduce the tax liability significantly, from approximately ~INR 14.01 lakh to around ~INR 8.69 lakh, reflecting a 38 per cent decrease. For a new 'Green vessel' of the same NT, the tax liability would only be ~INR 5.88 lakh.

To evaluate the competitiveness of the proposed rates, the average tax liability across these NT slabs has been

Table 10: Comparative Annual Tax Liability (INR)

Countries	NT							
	1000	10000	20000	30000	40000	50000	100000	200000
India (Existing) (E)	64,304	5,02,492	8,88,317	12,14,432	14,80,835	17,47,238	30,79,254	57,43,287
Singapore	13,200	1,32,000	2,64,000	3,96,000	5,28,000	**6,60,000**	**6,60,000**	**6,60,000**
HK	15,000	3,30,000	6,55,000	**7,75,000**	**7,75,000**	**7,75,000**	**7,75,000**	**7,75,000**
RMI	42,500	1,44,500	2,89,000	3,82,500	5,10,000	6,37,500	10,62,500	21,25,000
Liberia	78,985	3,59,025	5,34,177	6,30,501	7,26,825	8,23,149	13,04,767	22,68,004
Cyprus	36,135	3,12,612	5,11,404	6,74,061	8,00,583	8,72,853	12,34,203	19,56,903
Norway	26,280	4,99,320	8,49,720	11,12,520	12,87,720	14,62,920	23,38,920	40,90,920
Malta	2,47,500	3,54,420	4,83,120	5,72,220	6,41,520	7,10,820	9,58,320	14,53,320
Global Average Tax Paid (G)	65,657	3,04,554	5,12,346	6,48,972	7,52,807	8,48,892	11,90,530	19,04,164
Global Average Tax as % of India (G/E)	102%*	61%	58%	53%	51%	49%	39%	33%
India (Proposed) (P)	35,000	3,05,000	5,45,000	7,50,000	9,20,000	10,10,000	14,60,000	23,60,000
India Proposed (%) (P/E)	54%	61%	61%	62%	62%	58%	47%	41%

Note: * The rate charged by Liberia and Malta is very high for NT ≤ 1,000 tons.

Source: Authors' calculations.

computed in Table 10. Singapore and Hong Kong have capped the maximum tax payable as indicated before; hence, the tabulated global averages have decreased, as highlighted in Table 10. The tax liability (Table 10 (P)) is then estimated basis the proposed tonnage tax rates as per the methodology described in the Cyprus Model[33] for its simplicity and clarity.

To illustrate, if a 30,000 NT vessel has a tax liability of ~INR 1.00 in India, the comparative tax liability is only ~INR 0.53 (average) in Model B countries. The proposed rates reduce India's tonnage tax liability to ~INR 0.62, making the new regime more competitive with Model B countries, excluding Singapore and Hong Kong, which have capped the tonnage tax as mentioned above.

To make the regime more flexible, it is also recommended that the tonnage tax may be payable in two ways. First is 'One-time payment' along similar lines of 'road tax,' where the 'lifetime' tonnage tax liability may be extinguished in one instalment for the residual life of the ship as per DG Shipping notification[34]. Second, by making 'Yearly payments,' based on the framework of 'property tax,' where the tax liability may be paid at the time of initial registration or renewed registration, and then annually on the yearly recurrence of the registration date of the vessel.

The proposed reforms would position India advantageously amongst the select maritime countries and encourage reflagging fleets to India, albeit with other associated reforms to reinforce the flagging decision, such as registration, RoFR, etc. Accordingly, proposed reforms to Chapter XII G of the IT Act (1961) including corresponding Sections of the IT Act (2025) are placed at Appendix.

Conclusion

The journey towards Viksit Bharat and fulfilment of the MAKV47 aspirations will require invoking two principles: first, Ease of Doing Business through deregulation – bringing a simple annual tonnage tax regime and reducing the complicated regulatory compliance by removing additional requirements. Second, Cost of Doing Business - making the tonnage tax regime more competitive by lowering the tax rates to drive expansion of the national shipping fleet, especially for larger vessels, to reduce dependence on foreign hulls for crude, product, LNG, coking coal, and fertilisers, amongst other goods that are vital to maintaining economic growth and development. The increased tonnage is crucial for achieving *atma nirbharta* in the shipment of EXIM cargo, particularly crude, LNG, coking coal, fertilisers, and ores in the short term, and hydrogen and ammonia in the mid-term.

The proposed reforms in tonnage tax regime will not only help in enhancing registered tonnage but will also attract capital from global investors into Indian shipping, as a simplified regime will facilitate visibility for investors, improve India's stewardship for promotion of green shipping and most importantly provide strategic autonomy in the carriage of merchandise vitally required to support India's pathway to becoming the 3rd largest economy by 2047 and achieve the MAKV47 target of climbing to the 5th largest registry in the *Amrit Kaal*, as well as meaningfully contribute to greener, cleaner, and *Atma Nirbhar* shipping.

[33] Shipping Deputy Ministry, Documents, Tonnage Tax System, "Guide to Cyprus Tonnage Tax System", Appendix I, pp 16; Source:https://www.gov.cy/media/sites/25/2024/08/TAX-SYSTEM-BOOKLET-2021.pdf

[34] DGS Order No. 06 of 2023 dated 24.02.2023, along with Corrigendum I dated 24.06.2023, which specified the age norms for vessels is presently under revision. Retrieved from: https://www.dgshipping.gov.in/writereaddata/ShippingNotices/202505270745290537998InvitationcommentsonDraftsDGSOrderagenorms.pdf

Appendix

Summary of Proposed Reforms

Proposed Amendments in Chapter XII-G, "Special Provisions Relating to Income of Shipping Companies"

<table>
<tr><th>Section in IT Act (1961)</th><th>Corresponding Section in I-T Bill 2025[35]</th><th>Existing Provision</th><th>Decision</th><th>Justification</th></tr>
<tr><td>115V</td><td>235</td><td>Definitions</td><td>Remove
Revise
Retain</td><td>1. The proposed recommendations do not include "tonnage income", the definition may be removed.
2. Definitions for "tonnage tax activities," "Tonnage Tax Company," and " tonnage tax scheme" may be revised to incorporate the proposed recommendations.
3. Qualifying company may be changed to a qualifying entity
4. Rest of the definitions may be retained .</td></tr>
<tr><td>115VA</td><td>225</td><td>Computation of profits and gains from the business of operating qualifying ships</td><td>Remove</td><td>5. Tonnage income and related components are proposed to be removed to facilitate Ease of Doing Business and reduce the Cost of Doing Business
6. The simplified tonnage tax is an annual tax amount payable by the company and need not be recorded in a separate account</td></tr>
<tr><td>115VB</td><td>226 (1)</td><td>Operating Ships</td><td>Retain</td><td>7. The definition may be retained.</td></tr>
<tr><td>115VC</td><td>235 (h)</td><td>Qualifying Company</td><td>Revise</td><td>8. The definition only includes a company which is restrictive in nature. The option for opting tonnage taxation may be provided to every person irrespective of their form of incorporation to include LLPs, Consortiums, Partnership firms etc.
9. The definition may be revised.</td></tr>
<tr><td>115VD</td><td>235 (1)</td><td>Qualifying Ship</td><td>Revise</td><td>10. The vessel (seagoing or inland) may be of 100 tonnages or above.</td></tr>
<tr><td>115VE</td><td>226 (2)-(6)</td><td>Manner of Computation of income under the tonnage tax scheme</td><td>Remove</td><td>11. No tonnage income may be computed under the proposed scheme; the existing provisions may be removed to facilitate Ease of Doing Business and reduce the Cost of Doing Business</td></tr>
<tr><td>115VF</td><td>226 (7)</td><td>Tonnage Income</td><td>Remove</td><td>12. No tonnage income may be computed under the proposed scheme, the existing provisions may be removed to facilitate Ease of Doing Business and reduce the Cost of Doing Business</td></tr>
<tr><td>115VG</td><td>227 (1)-(6)</td><td>Computation of Tonnage Income</td><td>Remove
Revise</td><td>13. No tonnage income may be computed under the proposed scheme, the existing provisions may be removed to facilitate Ease of Doing Business and reduce the Cost of Doing Business
14. Computation methodology may be revised as recommended towards a simplified annual tonnage tax scheme as proposed below:
<table>
<tr><th>Slabs (Net Tonnage)</th><th>Regular Tax Amount (INR/NT)</th><th>Green Tax Amount (INR/NT)</th></tr>
<tr><td>Up to 1,000 tons*</td><td>35</td><td>23.5</td></tr>
<tr><td>Next 1,001 to 10,000 tons</td><td>30</td><td>20.1</td></tr>
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<tr><td>Next 25,001 to 40,000 tons</td><td>17</td><td>11.4</td></tr>
<tr><td>Next > 40,000 onwards</td><td>9</td><td>6.0</td></tr>
<tr><td colspan="3">* Vessels of less than100 NT are exempt</td></tr>
</table></td></tr>
<tr><td>115VH</td><td>227 (7)-(8)</td><td>Calculation in the case of joint operation</td><td>Revise</td><td>15. The company is required to pay the tonnage tax proportionate to the net registered tonnage</td></tr>
<tr><td>115V-I</td><td>228 (1)-(13)</td><td>Relevant shipping income</td><td>Remove</td><td>16. Tonnage income and related components are proposed to be removed to facilitate Ease of Doing Business and reduce the Cost of Doing Business</td></tr>
<tr><td>115VJ</td><td>228 (14)-(15)</td><td>Treatment of common costs</td><td>Remove</td><td>17. Tonnage income and related components are proposed to be removed to facilitate Ease of Doing Business and reduce the Cost of Doing Business</td></tr>
<tr><td>115VK</td><td>229 (1)-(7)</td><td>Depreciation</td><td>Remove</td><td>18. Tonnage income and related components are proposed to be removed to facilitate Ease of Doing Business and reduce the Cost of Doing Business</td></tr>
<tr><td>115VL</td><td>230 (1)</td><td>General Exclusion of deduction and set off etc.</td><td>Remove</td><td>19. This section is consequential to the computation of tonnage income
20. Tonnage income and related components are proposed to be removed to facilitate Ease of Doing Business and reduce the Cost of Doing Business</td></tr>
</table>

[35] The existing Income Tax Act 1961 has been reformed into the Income Tax Bill 2025. The corresponding clauses refer to the provisions against the existing references in the I-T Act 1961 for the same 'Special provisions relating to income of shipping companies'; Income Tax Act, 2025, Chapter XIII, *G-Special provisions relating to income of shipping companies*, pp 276-289; Source: https://sansad.in/ls/legislation/bills

115VM	**230 (2)-(4)**	Exclusion of Loss	Remove	21. Tonnage income and related components are proposed to be removed to facilitate Ease of Doing Business and reduce the Cost of Doing Business 22. Day-to-day operations of the shipping company are irrelevant to the proposed computation of tonnage tax as the same is only based on Net Tonnage.
115VN	**229 (8)-(10)**	Chargeable gains from the transfer of tonnage tax assets	Revise	23. Capital gains on Transfer of tonnage tax asset may be dealt with in Section 45 of the Act. 24. Further, the depreciation[36] for computing the WDV as on date of transfer may be same as other assets and computed as per Section 32 of the IT Act, 1961.
115V-O	**228 (16)**	Exclusion from the provisions of section 115JB	Revise	25. May include exclusion from Section 115JC (alternate minimum tax on persons other than companies)
1 15VP	**231 (1)-(7)**	Method and time of opting for tonnage tax scheme	Revise	26. The provision may be revised as the annual tonnage tax is recommended to be levied alongside the registration fee that could be paid annually or lump sum as proposed in the recommendations.
115VQ	**231 (8)-(9)**	Period for which tonnage tax option to remain in force	Revise	27. The annual tonnage tax is recommended to be paid over the expected operational life of the vessel as determined by the DG Shipping.
115VR	**231 (10)-(11)**	Renewal of tonnage tax scheme	Revise	28. The company may pay the annual tonnage tax along with the registration fee.
115S	**231 (12)**	Prohibition to opt for tonnage tax scheme in certain cases	Retain	29. Existing provision may be retained.
115 VT	**232 (1)-(11)**	Transfer of profits to Tonnage Tax Reserve Account	Remove	30. Tonnage income and related components are proposed to be removed to facilitate Ease of Doing Business and reduce the Cost of Doing Business.
115VU	**232 (12)-(14)**	Minimum training requirement for tonnage tax company	Remove	31. Tonnage income and related components are proposed to be removed to facilitate Ease of Doing Business and reduce the Cost of Doing Business
115VV	**232 (15)-(20)**	Limit for charter in of tonnage	Remove	32. No limitations may be imposed on the shipping companies with respect to charter in of tonnage. 33. Tonnage income and related components are proposed to be removed to facilitate Ease of Doing Business and reduce the Cost of Doing Business
115VW	**232 (21)**	Maintenance and audit of accounts	Revise	34. The company is expected to record the annual tonnage tax paid in line with the applicable provisions for annual levies in its account.
115VX	**227 (9)**	Determination of tonnage	Retain	35. This provision is retained.
115VY	**233 (1)-(4)**	Amalgamation	Remove Revise	36. Tonnage income and related components are proposed to be removed to facilitate Ease of Doing Business and reduce the Cost of Doing Business 37. The existing provisions may be revised as the company would pay the tonnage tax according to the proposed tonnage slab rates.
115VZ	**233 (5)-(6)**	Merger	Remove Revise	38. Tonnage income and related components are proposed to be removed to facilitate Ease of Doing Business and reduce the Cost of Doing Business 39. The existing provisions may be revised as the company would pay the tonnage tax according to the proposed tonnage slab rates.
115VZA	**232 (22)-(23)**	Effect of temporarily ceasing to operate qualifying ship	Remove	40. Tonnage income and related components are proposed to be removed to facilitate Ease of Doing Business and reduce the Cost of Doing Business
115VZB	**234 (1)-(3)**	Avoidance of Tax	Revise	41. The company may pay the annual tonnage tax along with the registration fee.
115VZC	**234 (4)-(7)**	Exclusion from tonnage tax scheme	Retain	42. The exclusion from tonnage taxation and opting for normal provisions under Sections 28 to 43C may be allowed once in the lifetime of the ship at the time of registration.

Source: Authors compilation.

[36] Depreciation needs to be computed in accordance with Section 32 of Income tax Act, 1961 to calculate the WDV as on date of transfer of the asset. The difference between sale consideration and the WDV shall be Short term Capital gain chargeable to tax at normal rates applicable to the person transferring the ship i.e. For a company/LLP/ Partnership – 30%; for an AOP with foreign member- 40% or as the case may be.

RIS
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The word "DAKSHIN" (दक्षिण) is of Sanskrit origin, meaning "South." The Hon'ble Prime Minister of India, Shri Narendra Modi, inaugurated DAKSHIN – Global South Centre of Excellence in November 2023. The initiative was inspired by the deliberations of Global South leaders during the Voice of the Global South Summits. DAKSHIN stands for Development and Knowledge Sharing Initiative. Hosted at the RIS, DAKSHIN has established linkages with leading think tanks and universities across the Global South and is building a dynamic network of scholars working on Global South issues.

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FITM is a joint initiative by the Ministry of Ayush and RIS. It has been established with the objective of undertaking policy research on economy, intellectual property rights (IPRs) trade, sustainability and international cooperation in traditional medicines. FITM provides analytical support to the Ministry of Ayush on policy and strategy responses on emerging national and global developments.

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