

LEASING THROUGH LABUAN BRINGS ATTRACTIVE TAX SAVINGS FOR SHIPPING INDUSTRY

Kuala Lumpur, 5 April 2010 – Many corporations and SMEs in the shipping business remain unaware of the significant tax benefits involved when leasing ships through Labuan. Accordingly, they spend more than they really need to.

Speaking at a seminar co-organised by OCBC Bank (Malaysia) Berhad and Equity Trust (Labuan) Limited recently, Ms Sue Yong, managing director of Equity Trust, said the favourable tax regime and regulatory environment in Labuan has helped both foreign and Malaysian-based companies to lower their operating costs through innovative leasing structures.



L-R: Ms Sue Yong, managing director of Equity Trust & Mr David Kinloch, Chief Executive Officer of Labuan IBFC

“Leasing through the Labuan International Business & Financial Centre (Labuan IBFC) involves enormous tax benefits – taxation at 3% of net audited profit or a flat tax of RM20,000 instead of the usual 25%. Unfortunately, many remain either unaware of or indifferent to this opportunity to better manage their funds,” she said.

The seminar, titled “Labuan IBFC for Ship Owners,” was held at Menara OCBC and attended by participants from various companies involved in the shipping business.

“Besides the generous tax benefit, offshore companies registered in Labuan have no withholding tax and also no stamp duty on offshore transactions. With the exception of the transportation of passengers or cargo by sea or letting out on charter of ships on voyage or time charter basis, Labuan Offshore Companies are allowed to carry on leasing of ships on a ‘bare boat’ basis,” she added

The seminar was also told that, with recent changes to Malaysian insurance law that allows direct access to the reinsurance market through the removal of the requirement for fronting companies, Labuan has become even more cost-effective and attractive.

Speaking at the same seminar, Mr David Kinloch, Chief Executive Officer of Labuan IBFC said that, previously, risk prevention measures required a fronting company that would take up to 10% in commission before reinsuring

to a captive insurer. However, with the change in regulation after 1 April 2009, a fronting company is no longer required and, with direct access to the reinsurance market, about 50% of costs spent on risk prevention may now be saved.

“Labuan is strategically located with access to developing economies such as China and India. In Labuan, setting up a company is a quick and simple exercise, and approvals come from a one-stop regulator, the Labuan Offshore Financial Services Authority (LOFSA). Operationally, costs are lower in this jurisdiction without sacrificing quality, with access to expertise and world-class infrastructure,” Mr Kinloch said.

The half-day event provided an avenue for stakeholders in maritime financing to gain insights into the opportunities at Labuan IBFC and risk-based capital management through captive insurance as well as tax incentives involved.

Commenting on the need for the seminar, Mr Jeffrey Teoh, Head of Commercial Banking, OCBC Bank (Malaysia) Berhad, said as one of the few banks in Malaysia with a dedicated ship financing team, OCBC Bank has over the last three years undertaken to provide insights into vessel financing for the benefit of those involved in the industry.



Mr Jeffrey Teoh, Head of Commercial Banking, OCBC Bank (Malaysia) Berhad

“We are aware that the bulk of SMEs operating in the shipping industry is not fully aware of the benefits associated with Labuan IBFC and that they are missing out on opportunities that could bring untold benefits.

“The thrust of the briefing centred round the question of why a company should lease vessels through Labuan IBFC also consider setting up its own captive insurance company. Many companies such as international airlines, and major shipping, oil exploration and real estate companies are already reaping the rewards of having done so.

“By locating their captive insurance bases and/or establishing a leasing company at Labuan IBFC, companies get to enjoy generous tax benefits, innovative products, financial expertise and exceptionally low costs of operation. Progressive regulations and clear laws further ensure maximum security and transparency,” he said.

He added that the seminar helped to bridge the gap between capability and knowledge.

“As OCBC Bank has a strong presence in Labuan and also offers financing in major foreign currencies – we are in a position to assist the industry players in a more focused end-to-end approach to fulfil their goals.”

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