EXPLANATORY MEMORANDUM TO

THE TONNAGE TAX (TRAINING REQUIREMENT) (AMENDMENT ETC.) REGULATIONS 2025

2025 No. 1007

1. Introduction

1.1 This Explanatory Memorandum has been prepared by the Department for Transport and is laid before the House of Commons by Command of His Majesty.

2. Declaration

2.1 Keir Mather, Parliamentary Under Secretary of State at the Department for Transport, confirms that this Explanatory Memorandum meets the required standard.

2.2 Dave Whyte, Deputy Director for Maritime People and Safety, at the Department for Transport, confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 John Cousley at the Department for Transport can be contacted by email at the following address with any queries regarding the instrument: tonnagetax@dft.gov.uk. Alternatively, the Department can be contacted by telephone: 0300 330 3000.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This instrument amends the Tonnage Tax (Training Requirement) Regulations 2000 (S.I. 2000/2129) (the "2000 Regulations") to increase the amounts to be used in calculating payments in lieu of training (PILOT) payable under those Regulations. This amendment ensures that companies paying into the UK Tonnage Tax regime continue to meet their training requirements and contribute appropriate levels of funding towards training UK seafarers.

Where does the legislation extend to, and apply?

4.2 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is England and Wales, Scotland and Northern Ireland.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is England and Wales, Scotland and Northern Ireland.

5. Policy Context

What is being done and why?

5.1 The UK Tonnage Tax regime provides shipping companies with an alternative regime for calculating their profits for the purposes of corporation tax. It is a voluntary scheme which enables shipping companies to pay corporation tax based on the net tonnage (i.e. carrying capacity) of ships operated by the company, rather than from the profits generated by those vessels.

5.2 A company electing into the tonnage tax regime (a "tonnage tax company") must meet certain minimum obligations in connection with the training of seafarers. Under

the minimum training obligation, a company is required to train one officer cadet per year for every 15 officer posts in the company's effective officer complement, and to give consideration to employment and training opportunities for ratings.

5.3 The Tonnage Tax (Training Requirement) (Amendment) Regulations 2015 (S.I. 2015/788), introduced an option from October 2015 to provide training for three trainee ratings in place of one officer cadet. Prior to this amendment, the training of ratings did not count towards meeting the training obligation. Under the UK tonnage tax scheme, an officer cadet is a person training to become a certified ship officer, while a trainee rating is a person training for any other role on board (e.g. engine maintenance or passenger safety). Eligible officer cadets or trainee ratings must be ordinarily resident in the UK and either a UK national, a national of an EEA State or a British citizen from the Channel Islands or the Isle of Man. If a company cannot fully meet this obligation through training, it may instead make payments in lieu of training (PILOT). The 2000 Regulations set out the nature of the training obligation and the basis for calculating PILOT. This instrument increases the amounts used in that calculation.

5.4 PILOT payments are made to the Maritime Training Trust ("MTT"), an industry-led body independent of government which holds and allocates the monies received by it for the purpose of promoting and supporting the training of seafarers.

5.5 PILOT represents the cost of training an officer cadet and consists of a basic rate plus an additional element to cover the MTT's overhead costs. When tonnage tax was introduced, the MTT's overhead costs were set at 10% of the basic rate of PILOT. It has not been necessary to increase the MTT overhead costs element since then, so that the overhead element now represents less than 6% of the basic rate. The MTT's overhead costs will therefore remain at £92 per month.

5.6 The government made a commitment to ensure that PILOT remains in line with actual training costs, to ensure there is no disincentive for operators to directly train cadets. It is a core principle that tonnage tax companies should fulfil their training commitment by the practical training of seafarers rather than the payment of PILOT and that, barring exceptional circumstances, PILOT should not be 'planned' but arise only in case of default.

5.7 A company or group that fails to meet its training commitment (with at least 50% of that commitment met through direct training) could see any PILOT due in the following year increase by 50%. This could increase further by 100% if the training requirement is not met in two consecutive years. The basic rate (that which excludes the MTT overhead costs) is used to calculate this higher rate under Regulation 21 of the 2000 Regulations (higher rate of payment in case of failure to meet training requirement).

What was the previous policy, how is this different?

5.8 The intent of the policy, as outlined in paragraphs 6.1 to 6.7, remains unchanged. The 2000 Regulations previously imposed a lower basic rate of PILOT. This instrument increases that rate.

5.9 In April 2025, the MTT wrote to the Secretary of State for Transport, requesting PILOT be increased from £1421 to £1705 a month. This would reflect the increased costs of training and ensure there is no financial advantage to pay into PILOT, instead of directly training UK seafarers. The rate will therefore be increased from £1,421 to £1,705 per month from 1st October 2025. (That is a basic rate of £1,613 plus the overheads costs of £92.)

6. Legislative and Legal Context

How has the law changed?

6.1 This instrument amends the 2000 Regulations to specify a higher basic rate of PILOT in respect of periods after 30 September 2025. It also revokes the previous regulations which it supersedes, the Tonnage Tax (Training Requirement) (Amendment etc.) Regulations 2023. This instrument is part of a series of instruments made regularly since the introduction of Tonnage Tax in 2000 to increase the basic rate of PILOT in line with training costs.

Why was this approach taken to change the law?

6.2 This is the only possible approach to make the necessary changes.

7. Consultation

Summary of consultation outcome and methodology

7.1 The changes made by this instrument amount to a technical exercise to determine the appropriate payment amount, rather than a reconsideration of the policy itself, which is widely accepted and well established. A 2010 consultation considered measures to address the appropriate level of PILOT alongside the policy objective, which was to increase the number of UK officer trainees. The preferred action was to bring PILOT levels into line with actual training costs and make provision for a regular review (undertaken by MTT) of PILOT rates against those actual costs. A consultation was therefore not considered necessary for this amendment. Tonnage tax companies have an expectation that PILOT will increase at least in line with the Treasury GDP Deflator or, as in this case, to reflect an inflationary rise in training costs. Similar exercises have been carried out since 2010, with rates amended roughly every two years to maintain alignment with training costs.

7.2 The Department will write to tonnage tax companies in advance of the instrument coming into force on 1st October 2025 to inform them of the new rates.

8. Applicable Guidance

8.1 DfT will review the current Tonnage Tax guidance and update as appropriate to ensure it reflects the requirements contained in these Regulations.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full Impact Assessment has not been prepared for this instrument because the amounts involved fall below the threshold for producing one. The equivalent annual net direct cost to business of this measure is estimated at £0.65m in the central scenario. A de minimis assessment (published alongside this EM) was therefore deemed appropriate.

Impact on businesses, charities and voluntary bodies

9.2 The impact on business is that those companies electing into the UK tonnage tax scheme will have to pay increased PILOT if they are unable to fulfil their training obligations. The cost of PILOT is calculated to be comparable to the cost of training and is not a penalty charge on the company. No impact is expected on charities or voluntary bodies.

9.3 The legislation does not impact small or micro businesses.

9.4 There is no, or no significant, impact on the public sector because this instrument does not involve public sector funding. Additionally, public sector bodies are not subject to the PILOT regime.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The approach to monitoring this legislation is that the Department will keep PILOT rates under review, in consultation with the MTT, with the intention of ensuring that they continue to be in line with actual training costs.

10.2 The instrument does not include a statutory review clause, and, in line with the requirements of the Small Business, Enterprise and Employment Act 2015, Keir Mather MP, Parliamentary Under Secretary of State at the Department for Transport, has made the following statement:

"Having had regard to sections 28 to 32 of the Small Business, Enterprise and Employment Act 2015 and the Statutory Review Guidance for Departments published under section 31(3) of that Act, I have decided that it is not appropriate to make provision for review in this instrument because it would be disproportionate, taking into account the economic impact of the legislation, to include provision for review."

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

12. European Convention on Human Rights

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

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 (“relevant European Union Acts”).