

Guiding Clients for Over 20 Years



U.S. Taxation of
International Shipping



Who We Are

Flott & Co. PC is a specialized international tax law practice located in Arlington, Virginia, next door to Washington, DC, the home of the US federal government and headquarters of the Internal Revenue Service, commonly referred to as the IRS.

For over 20 years the firm has helped its clients navigate the US tax laws, regulations and compliance requirements that apply to income earned by ships transporting cargo to and from the United States. Today, Flott & Co. is recognized as a leading expert in this field.



The US Shipping Tax

Amendments to the US Internal Revenue Code enacted by the Tax Reform Act of 1986 (TRA86) changed the then long standing sourcing rule for income earned from international transportation of cargo between US and foreign ports. From 1 January 1987, 50% of the gross hire earned on laden voyages to and from the US, which had been treated as "foreign source" income, is deemed to be "US source" income and subject to a 4% tax. TRA86 also enacted provisions that allow foreign corporations to exclude their "US source" income from tax in the US if they meet specific statutory requirements. Due to these TRA86 tax changes, beginning in 1988 foreign corporations earning US source transportation income as described above are required to file US tax returns even if they are entitled to exclude that income from US taxation. Regardless of what you may have heard to the contrary, US law requires every company that receives income from the transportation of cargo to or from the United States to file a tax return every year even if the company is entitled to exclude that income from tax.



Stephen Flott, who founded the firm in 1990, began advising foreign shipowners and charterers on the US shipping tax, exemption rules and IRS filing processes when US tax returns were first required to be filed in 1988. He worked with IRS lawyers to draft the language that the IRS eventually adopted as sufficient to properly state a claim for exclusion of US source gross transportation income from tax. The firm has presented seminars on the US shipping tax regime in the UK, Greece, Cyprus and Turkey. It has also provided guidance through publications of the London Club, the Greek Shipping Cooperation Committee, BIMCO and INTERTANKO.

Today, Flott & Co. advises and assists more than 100 ship managers, operators, owners and charterers based in Europe, Asia and the Middle East on US tax matters. Most of our clients are privately-owned companies engaged in international tramp and liner operations. We also represent public shipping companies whose stock is traded on major stock exchanges in the United States and Europe.

What We Do

During the past twenty years, Flott & Co. has not only concentrated on US tax laws and regulations applicable to international shipping, but has also closely studied related IRS compliance practices.

We provide advice on corporate structuring of shipping groups to account for the application of US tax and on the impact of the tax and regulations on specific ownership situations. We also prepare and file the IRS forms required to comply with US law.

The ship tax fee schedule that is posted on our website (see "How We Charge") www.flottco.com is the result of continuous dialogue and feedback from our clients. We do not charge clients for the time required to answer individual tax questions of general application. Instead, we divide our costs among groups of similarly situated clients. The group approach to our shipping tax representation has enabled us to keep our fees modest.

This fee arrangement has allowed Flott & Co. to devote more resources to tracking shipping tax developments and other tax changes that may affect many or all of our clients.



Our goal has been and remains to simplify US tax compliance for our clients. The practical knowledge of IRS administrative procedures we have developed during the past twenty years enables us to ensure full adherence to IRS requirements and reduce the risk and incidence of IRS inquiries and challenges. Our clients especially like the fact that we stand between them and the IRS.

How We Work

Almost as soon as we began working with clients on US shipping tax matters, we realized that many of the issues raised by specific facts in one client's case applied to other similarly situated clients. The same is true for interpretations of IRS regulations or requirements and insights into IRS filing practices. Thus, very early on we elected to treat our shipping tax practice clients as a group and worked with them to develop a billing system that spread the costs of representation over the group.

For example, when the US summarily cancelled the US-Malta Treaty in 1996, we worked with Malta's shipping officials on a diplomatic note which enabled Malta to maintain its exempt status without interruption. In 1997 we successfully persuaded US Treasury officials to support an amendment to the tax code provision that eliminated any doubt about the exemption of foreign seamen's wages from US withholding taxes. Between February 2000 and August 2003, we advocated for the interests of the tramp shipping industry during the IRS development of the shipping tax regulations, opposing the disclosure rules affecting beneficial owners, among others. After the new regulations took effect, we continued to advocate for change to the disclosure rules, finally succeeding when the IRS adopted amendments to the regulations in June 2007.

We also understand the importance of face-to-face contact when dealing with the sensitive matters that arise when discussing ownership issues as they relate to the US shipping tax. That is why we make it a practice of visiting our clients in their offices on a regular basis. The group approach allows us to do this at little cost to clients.

The Flott & Co. Team

Stephen Flott has been a lawyer for thirty-five years. In addition to business and tax advice applicable to many different types of businesses, he focuses on transportation, primarily advising transport companies based outside the United States.

Mr. Flott began his transportation career in Toronto with Ontario Trucking Association (OTA) during law school. After graduating with his law degree from York University in 1973, he was admitted to the bar in Ontario in March 1975 and developed a business and transportation practice principally serving motor carriers.



Stephen P. Flott, Esq.

In May 1978, he was appointed Executive Vice President and General Manager of OTA where he served for five years as chief operating officer with responsibility for policy, political activities and business operations. He joined the University of Toronto's Joint Program in Transportation as a Senior Fellow in 1983, and opened his own consulting firm, specializing in transportation and international trade.

In 1986, he returned to the practice of law, working on shipping matters for domestic and international clients first at Lillick, McHose & Charles and later at Lane & Mittendorf, both in Washington, DC. In 1988, he began working on the US taxation of foreign shipping companies. In January 1990 he founded the firm that is now Flott & Co. PC.

In addition to his law degree, Mr. Flott holds an honors undergraduate degree in history and economics from St. Jerome's College, a Masters Degree in History from the University of Waterloo, and a post-graduate degree in law from George Washington University. He is a member of the American, District of Columbia and Virginia Bar Associations



Benjamin G. Snipes, Esq.

Benjamin Snipes has been advising clients with international tax and commercial matters for six years. Prior to joining Flott & Co. in 2007 Mr. Snipes worked as corporate counsel for the Orange Business Services division of France Telecom S.A., a global telecommunications provider and Fortune 100 company. At Orange Business Services, Mr. Snipes worked primarily in the areas of international commercial transactions, global regulatory compliance, mergers and acquisitions, and international tax.

Mr. Snipes is currently pursuing a Master of Laws in Taxation (LL.M.) and a Master of Business Administration (M.B.A.) in the evenings at Georgetown University in Washington, DC. Mr. Snipes received a Juris Doctor (J.D.) with International Law Certification from the Florida State University College of Law in 2003. While in law school, Mr. Snipes also received a Certification in International Arbitration and Mediation at Humboldt University, Berlin, Germany, and was awarded a fellowship with the Florida Legislature where he drafted and advised on proposed legislation under the supervision of staff attorneys. Prior to earning his law degree, Mr. Snipes received his Bachelor of Arts (B.A.), High Honors, from the University of Florida in 2000.



Jeanne Franklin, Esq.

Ms. Franklin advises foreign persons and companies with US source income and US citizens residing abroad on the application of US tax law. Ms. Franklin received her Masters of Law (LL.M.) with a specialty in Taxation from New York University School of Law in 2009. She graduated cum laude with her Juris Doctorate (J.D.) from Mississippi College School of Law in 2008. Prior to earning her law degree, Jeanne received her Bachelor of Science (B.S.) and her Masters of Professional Accountancy from Louisiana Tech University. Jeanne is an actively licensed Texas Certified Public Accountant (C.P.A.).

Prior to returning to attending law school, Jeanne's work experience includes preparing tax returns and performing external audit reviews for Ernst & Young, LLP. She served as a Manager of Gas Accounting for Duke Energy Trading and Marketing Company, based in Houston, Texas, a Fortune 500 Company; and as Manager of Business Compliance for Consolidated Graphics, Inc. While at Mississippi College School of Law, Jeanne also served as co-coordinator of Mississippi College School of Law-Mission First Legal Aid Office's Tax Clinic, assisting lower income residents of Jackson, Mississippi with their federal and state income tax returns.



Expert, personal and economical US shipping tax advice and compliance assistance is only as far away as a telephone or a computer. Call or email us and learn what many others engaged in US trading have already discovered.



Flott & Co. PC
ATTORNEYS

2009 North 14th, Street Suite 600
Arlington, VA 22201-2514

P. 703.525.5110 **F.** 703.525.5122

tax@flottco.com

www.flottco.com