

The New Cyprus VAT Leasing Scheme for Yachts

Introduction

In March 2012, the Cypriot Value Added Tax (VAT) Services Department published guidelines on the VAT Leasing Scheme for Yachts. These were revised on 30 January 2014. The new guidelines allow yacht owners to benefit from reduced VAT rates. They also involve a favourable option to purchase a leased yacht at an agreed price.

The purchase cost of a pleasure craft used exclusively for pleasure is subject to VAT if the vessel is brought into the EU and used in EU waters. If the vessel is used partly outside EU waters the percentage of the cost subject to VAT may be reduced to reflect this.

Effectively, the scheme allows for VAT rates to be reduced to as low as 3.8% of the initial value of a yacht which is less than the equivalent rates in other favoured jurisdictions.

The percentage of the cost subject to VAT is determined according to the type and the length of the vessel.

A Yacht Leasing Agreement

A Yacht Leasing Agreement is an agreement whereby the lessor (the owner of the yacht) contracts the use of the yacht to the lessee (the person who leases the yacht) in return for a consideration.

At the end of the lease period, the lessee may opt to purchase the yacht at a fraction of the original price. Such final purchase is strictly an option which may be exercised by the lessee, at the end of the lease period, for a separate consideration.

The VAT treatment of the Yacht Leasing Agreement

For VAT purposes, the leasing of the yacht is considered as a supply of services with the right of deduction of input VAT by the lessor. This supply of services by the lessor, is taxable at the basic VAT rate of 19% but only to the extent that the leased yacht is used within the territorial waters of the European Union (EU). A specific condition which applies is that the lessor must be a company registered in Cyprus. The lessee may be an individual or legal person, irrespective of residence / place of incorporation.

The use of the yacht within EU territorial

Taking into consideration the inherent difficulty of trailing the movements of each yacht in order to determine the time that the yacht is used within the territorial waters of the EU and the time it is used outside the EU, the Yacht Leasing Guidelines provide that Cyprus VAT will only be applied on a percentage of the lease consideration. The applicable percentages have been determined by the VAT Service and depend on the length and type of the yacht (motor or sailing yachts) and indicate the presumed length of use of the yacht in EU waters. There is therefore, no need to maintain for VAT purposes, any detailed record or log books of the movements of the yacht.



VAT Rates

Effective VAT rates

Under the VAT on Yacht Leasing Regulations of March 13 2012, only a percentage of the lease value should be subject to Cyprus's standard VAT rate of 19%. Depending on the size of the yacht concerned, the effective rate of VAT will vary between 3.8% to 11.4% of the lease value

Lease terms

The Cyprus scheme requires an initial lease payment of 40% and allows a lease period of 4 years. Although compared to Malta, Cyprus requires a higher profit to be earned by the lessor over the term of the lease (8% compared to 1%) and sets a higher minimum price for the lessor to purchase the vessel at the end of the lease (4% of the original cost compared to 1%).

Cyprus is a well-established maritime centre with many other advantages, in terms of its location, communications and environment, and the new leasing scheme makes it a formidable competitor in the pleasure craft sector.

Sailing Yachts

Type of yacht (Sailing)Length	% of use within EU	Effective rate of VAT
Sailing boats > 24 metres	20%	20% of consideration x 19% = 3.8%
Sailing boats between 20.01 to 24 metres	30%	30% of consideration x 19% = 5.7%
Sailing boats between 10.01 to 20 metres	50%	50% of consideration x 19% = 9.5%
Sailing boats up to 10 metres	60%	60% of consideration x 19% = 11.4%
Yacht permitted to sail in protected waters only	100%	100% of consideration x 19% = 19%
Motor boat > 24 metres	20%	20% of consideration x 19% = 3.8%
Motor boats between 14.01 to 24 metres	30%	30% of consideration x 19% = 5.7%
Motor boats between 8.01 to 14 metres	50%	50% of consideration x 19% = 9.5%
Motor boats up to 8 metres	60%	60% of consideration x 19% = 11.4%
Yacht permitted to sail in protected waters only	100%	100% of consideration x 19% = 19%



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Conditions

For the VAT rates to apply the following conditions must be satisfied:

- The agreement must be made between a Cyprus established company and any physical or legal person irrespective of origin.
- The vessel must sail to Cyprus within one month of signing of the lease agreement.
- Initial lump sum payment must be at least 40% of the value of the vessel
- The lease payments must be payable on a monthly basis and the term of the lease agreement cannot exceed 48 months and must not be less than 3 months.
- The lessor is expected to attain a profit margin from the lease agreement of at least 10% of the value of the vessel.
- The final payment cannot be less than 4% of the value of the vessel
- Written approval of the VAT Commissioner must be obtained in advance.

NOTES:

The above is intended to provide a brief guide only. It is essential that appropriate professional advice is obtained. P.G. Economides & Co Ltd will be glad to assist you in this respect. Please do not hesitate to contact us.

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