

## CHELCO VAT LTD PRESENTS:

### Sail and Save: The Cyprus VAT Yacht Leasing Scheme

As part of its efforts to boost its competitiveness as a tax jurisdiction, the Cyprus Government looked for ideas elsewhere in the EU and took notice of a VAT scheme on yachts adopted by competing jurisdictions. The scheme seemed like a lucrative tax product especially for sea-bound jurisdictions such as Malta and the UK. To this effect, the Cyprus VAT Authorities issued on 13 March 2012 circular 163 introducing the VAT Yacht Leasing Scheme (VYLS).

The mechanics of the scheme are based on the place of supply rules of article 56 of the VAT Directive, combined with the use and enjoyment provisions of article 59a(a) of the VAT Directive, as implemented in Cyprus. This means that any portion of leasing that takes place outside Cyprus and outside EU waters has a place of supply outside the EU and is thus not subject to VAT. To avoid burdensome mechanisms of monitoring the actual movement of each yacht, the Tax Department introduced the below fixed rates based on the length and how a yacht is powered.

**Table A: Motor Boats**

Boat Length	Assumed % use within EU	Applicable VAT rate on the lease payment
Length > 65m	10%	1,9% (10%*19%)
Length 45,01m - 65m	15%	2,85% (15%*19%)
Length 24,01m - 45m	20%	3,8% (20%*19%)
Length 14,01m - 24m	30%	5,7% (30%*19%)
Length 8,01m - 14m	50%	9,5% (50%*19%)
Length < 8m	60%	11,4% (60%*19%)
Boat eligible to sail only within sheltered waters	100%	19%

**Table B: Sailing Boats**

Boat Length	Assumed % use within EU	Applicable VAT rate on the lease payment
Length > 65m	10%	1,9% (10%*19%)
Length 45,01m - 65m	15%	2,85% (15%*19%)
Length 24,01m - 45m	20%	3,8% (20%*19%)
Length 20,01m - 24m	30%	5,7% (30%*19%)
Length 10,01m - 20m	50%	9,5% (50%*19%)
Length < 10m	60%	11,4% (60%*19%)

Applying the fixed rates means that the effective VAT rate for acquiring a yacht could be reduced from the standard rate of 19% down to just under 2,5% based on the characteristics of each yacht.

For a 70m, €200million mega yacht, the VAT savings reach a whopping €33.000.000!

So, what are the conditions of the VYLS and how does it work?

**Conditions:**

- a. Lessor must be a Cyprus resident and VAT registered company. The lessee may be any legal or physical person regardless of their residency.
- b. The yacht needs to sail to Cyprus within one month from the time the lease agreement is put in effect. (Extensions may be granted at the discretion of the Commissioner, which cannot exceed the lease duration).
- c. The value of the yacht will need to be ascertained either via the purchase documentation (usually applicable for newbuilds) or an independent valuation (usually applicable for the purchase of used yachts) as may be required by the VAT Department.
- d. The yacht length is determined as per the builder's certificate.
- e. Lease payments will be monthly and the agreement can be neither shorter than 3 months (91 days, to meet the long term leasing definition) nor longer than 48 months.
- f. The lessee needs to contribute a minimum initial contribution of 40% of the yacht value. This is subject to VAT at the reduced effective rate based on the yacht specifications.
- g. Over the length of the leasing agreement the lessor must have a profit of no less than 5% of the yacht value. This means that the total value of the lease agreement should represent the purchase value of the yacht plus an additional minimum 5% margin. Half of that margin, that is 2,5% of the yacht value, is applied over the lease payments and the other half over the last payment.
- h. The final payment under the option to purchase the yacht by the lessee, cannot be less than 2,5% of the yacht value. This final payment is always subject to the standard VAT rate (i.e. 19% as of 13/01/2014).
- i. To be able to apply the VYLS prior application and written approval by the Commissioner of Taxation is required.

The Cyprus VYLS has no restrictions on the yacht's flag which means that the yacht may be registered under any ship register in the world and still be allowed to enjoy the VAT benefits of the Cyprus VYLS.

**Mechanics of the scheme:**

1. The lessor will acquire the yacht. No VAT will apply on the acquisition (neither under acquisition accounting for EU purchases nor import VAT for non EU

purchases) as that VAT would be fully recoverable under the premise that the lessor engages in taxable transactions with the right to deduct for VAT purposes, being the leasing of the yacht.

2. The lessor will have applied for the VYLS and obtained approval from the VAT Department in writing.
3. The lessor will submit monthly VAT returns on which it will not be allowed to deduct input VAT on any expenses and will be required to record the lease installments and related output VAT as per the approved VYLS.
4. Once the VYLS is completed and all VAT returns have been duly submitted and VAT payments duly settled, a VAT paid certificate will be issued that needs to accompany the yacht in original to prove to the Tax Authorities of other jurisdictions that EU VAT has been duly discharged in Cyprus for the specific yacht.
5. When the yacht first arrives in Cyprus it will be required to undertake all import and customs procedures and import duties may be applicable depending on whether the yacht is an EU product or an import.

The Cyprus VYLS has proven to be a very efficient scheme with regards to the time and procedures required to obtain approval and a very beneficial scheme in terms of the effective VAT rate levied compared to the standard rate applicable in Cyprus. As a measure of comparison, the Cyprus VYLS is more tax efficient than the Maltese VYLS with a minimum effective VAT rate of 2,4% compared to Malta's 5,4%.

Chelco VAT Ltd has extensive experience in applying for the VYLS and the relevant procedures and we would be more than happy to examine your specific case and offer our advice.

### Example

Motor boat 70m long with a value of €200million for a leasing period of 12 months.

Net Amounts Involved:

Calculations	€
Yacht value [(A)]	200.000.000
2,5% required profit [(B)=(A)*2,5%]	5.000.000
Total value incl. 2,5% expected profit [(C)=(A)+(B)]	205.000.000
Initial contribution by lessee 40% [(D)=(A)*40%]	80.000.000
Total lease instalments [(E)=(C)-(D)]	125.000.000
Monthly lease payments [(F)=(E)/48]	10.416.667 per month
Final payment [(G)=(A)*2,5%]	5.000.000

Tax amounts involved over the lease period:

VAT amounts	Effective VAT Rate	VAT Amount (€)
Initial contribution (80.000.000)	1,9%	1.520.000
12 Lease payments (12*(F)=125.000.004)	1,9%	2.375.000
Final payment ((G) 5.000.000)	19%	950.000
Total VAT paid under VYLS		4.845.000
Effective VAT rate (4.845.000/200.000.000)	2,4%	

### **Chelco VAT Ltd**

Dedicated VAT Consultants

Chelco VAT Ltd was formed in 2012 in Limassol and is now considered one of the foremost authorities on indirect tax matters in Cyprus. It is also a leader in the organisation of training VAT seminars, workshops and in-house technical courses via its educational arm, the Chelco VAT International Academy.

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