



Cyprus Yacht Leasing Scheme

An update, following the recent VAT circular 181, dated 30 January 2014

Introduction

For the past 50 years Cyprus has developed into a formidable maritime centre, renowned for its high quality shipping services. Cyprus is currently the 10th largest fleet in the world even though any vessel under Cypriot flag cannot cross Bosphorus due to our political differences with the Turks. It is expected that if the Cyprus issue is solved, Cyprus could be in the top three positions worldwide in terms of fleet size .

This paper discussed the pleasure boat leasing scheme introduced in March 2012. The scheme provides a simplified way to identify the VAT treatment for Cyprus companies that act as yacht lessors. Since then, Cyprus has become an attractive jurisdiction to register yachts in Europe as the scheme provides significant tax benefits when compared to similar schemes introduced by other EU Member states.

The scheme

The scheme applies for yachts bought for personal use. Boats bought for business are taxed at positive rate@19% on acquisition cost and the vatability of their income is ruled by vat circular 173. For any new boat docked in the Republic, the tax men provide a grace period of 45 days, under which no vat is paid. After that period you have to declare if the yacht will be used for business or pleasure or if you do not want to pay Cyprus vat you remove the boat from Cyprus waters.

As for the pleasure boat scheme and as discussed above , under Cyprus VAT legislation the leasing of a Cyprus registered yacht is considered to be a provision of services and as such the leasing of yacht is subject to Cyprus VAT at the normal rate of 19%, based on the assumption that the yacht is confined within EU territorial waters. The legislation allows for output VAT to be reduced for the time spent navigating outside EU waters. Previously there was a large amount of administration as the lessor had to keep detailed logs for the whereabouts of his vessel, often resulting in disputes with the Department of Inland Revenue.

The scheme's introduction simplified the method of determining applicable VAT on the yacht's usage as it assumes that the time spend outside EU waters increases with the size of the yacht. Based on this assumption, an advance estimation of VAT is made according to the yacht's size and type.

On the accounting side this scheme assumes that the lessor is entering into a finance lease with the lessee (who can be a legal or physical person, resident in any jurisdiction) for the usage of the yacht. The scheme allows VAT savings of up to 80% to the lessor, based on the size and type of the vessel. The lessee is also granted a possible option to purchase the vessel at the expiration of the lease for a predetermined price.

The terms

Under the new scheme the size and the type of yacht replaces the percentage for usage in EU waters and the effective VAT rate is now calculated based on the following tables:

Table A: Motor boats

| Length | Percentage of usage within EU | Effective VAT Rate |
|---|-------------------------------|--------------------|
| Over 24 meters | 20% | 3.80% |
| Between 14.01 and 24 meters | 30% | 5.70% |
| Between 8,01 and 14 meters | 50% | 9.50% |
| Up to 8 meters | 60% | 11.40% |
| Restricted use within Cyprus protected waters | 100% | 19.00% |



Table B: Sailing Boats

| Length | Percentage of usage within EU | Effective VAT Rate |
|-----------------------------|-------------------------------|--------------------|
| Over 24 meters | 20% | 3.80% |
| Between 20.01 and 24 meters | 30% | 5.70% |
| Between 10,01 and 20 meters | 50% | 9.50% |
| Smaller than 10 meters | 60% | 11.40% |

The conditions

In order for the scheme to apply all the following conditions should be met:

- The lessor must be a Cypriot registered company and registered for local vat. There are no restrictions as for the residency of the lessee.
- The yacht should sail in Cyprus within one month of the date of the lease agreement. In case an extension is needed, this should be agreed with the Commissioner of VAT prior to the commencement of the scheme.
- The lessee must pay the lessor an initial contribution of at least 40% of the yacht's value.
- The lease payments are payable on a monthly basis and the duration of the lease cannot exceed 48 months. The minimum lease period is three months.
- The lessor is expected to have a profit on the lease agreement of no less than 5% of the yachts initial cost.
- The final payment at the expiration of the lease agreement, resulting in the yacht's ownership being handed over to the lessee cannot be less than 2.5% of the initial cost of the yacht, which represents the profit of this transaction and it is subject to vat on the positive rate, currently being 19%.
- Prior to the commencement of the scheme the lessor should obtain a written approval from the Cyprus VAT authority that the company is entitled to participate in the scheme. Following approval, the vat rate to be used during the whole life of the scheme will be clearly stated by the Cyprus VAT authority. In order for such a permission to be granted the lessor must file the lease agreement and the relevant paperwork showing evidence of the value of the yacht.

Certificate of VAT paid

If the lessee exercises the option to buy the yacht, on the expiration of the lease, the VAT authorities will issue a certificate that all VAT due has been paid,.

Illustrative example for VAT and Corporation Tax of a yacht, 30 meters long, with a cost price of €5 million. Assuming sale price and lease payments are €5.4

| | |
|---|------------------|
| Initial contribution @ 40% of cost | €2 million |
| Vat on initial payment @ at 3.8% (i) | € 76,000 |
| Sale price at the expiration of the lease @ 4% of cost | € 200,000 |
| Vat on sale price @ 19%(ii) | € 38,000 |
| Corporation tax @ 8% of the cost @ 12.5% being the tax rate | € 50,000 |
| Vat on monthly instalments of 3.2 million @ 3.8%(iii) | € 121,600 |
| Total contributions to VAT (i), (ii), (iii) | € 235,600 |
| Total contributions to Cyprus Income Tax | € 50,000 |
| Total Vat savings from standard rate (initial cost @ 19%) | € 714,600 |

Corporation Tax treatment

The profit made by the lessor is subject to Corporation Tax in Cyprus under normal tax rate of 12.5%.