

VAT Schemes: Pleasure Yachts and Privately Operated Aircrafts

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Yacht VAT Leasing Scheme



Yacht VAT Leasing Scheme



Objective:

To minimise the VAT exposure of the yacht owners who would like to move freely within the European Union **for pleasure!**

Yacht registration in Europe: Cyprus and Malta



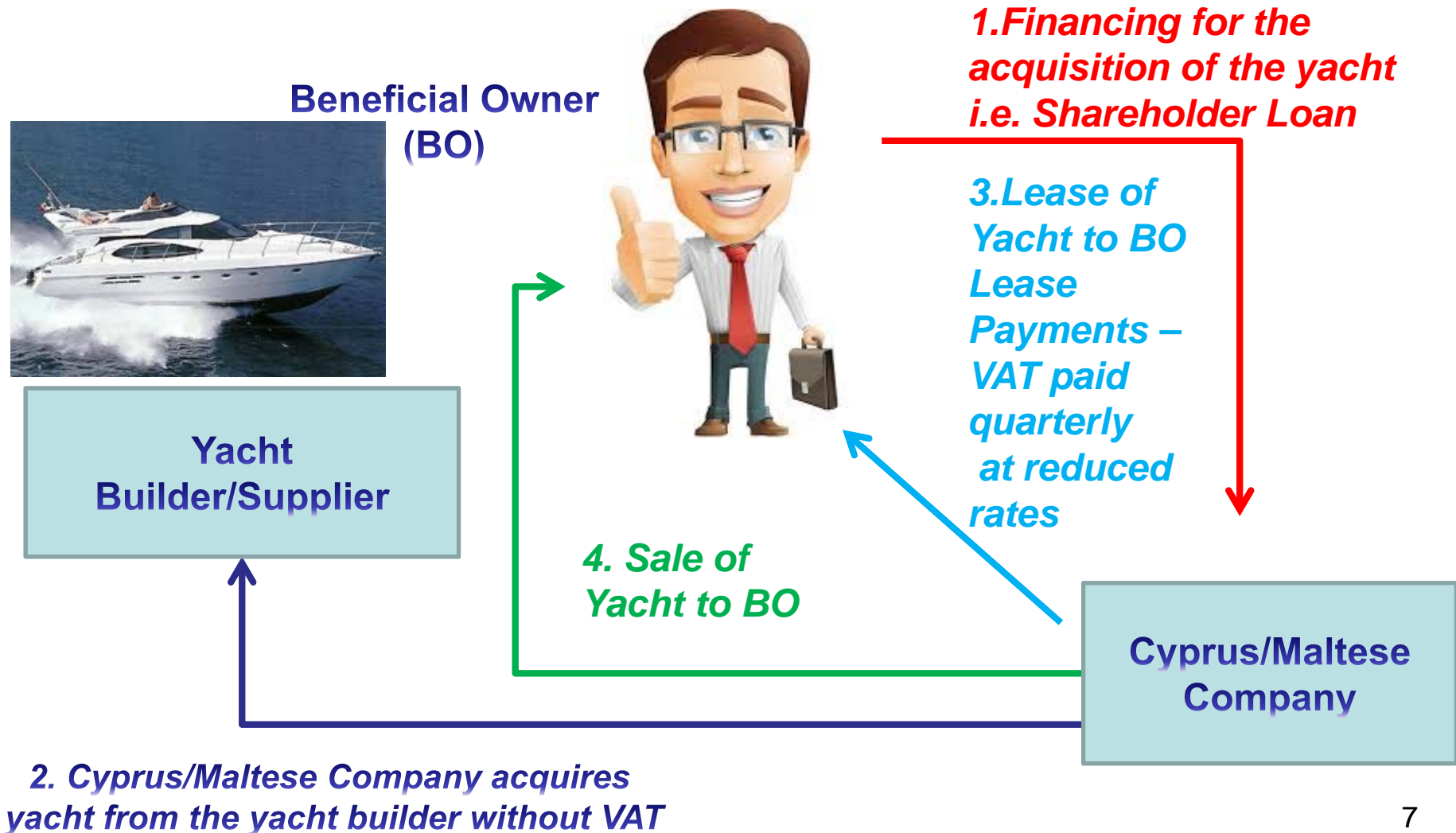
- If a yacht is going to be based in the EU waters, then VAT becomes one of the major considerations, as it is likely, that an EU country, will raise a VAT charge for the importation of the yacht.
- The acquisition cost of pleasure craft (private yachts or other vessels used exclusively for pleasure), is subject to VAT if the vessel is brought into the EU and used in EU waters.
- Consequently, most yacht owners who would like to move freely within the European Union will seek to minimise their VAT exposure.

VAT on yachts



- The key to reducing the amount of VAT that is due on the purchase of a yacht, is how the yacht is purchased.
- Rather than buying the yacht outright and paying the full VAT on the transaction, by establishing a company in Cyprus or Malta which can purchase a yacht and leasing it out through that company (for business purposes), you can take full advantage of the most advantageous EU yacht leasing schemes.
- The aim of both schemes is to assist yacht owners to pay VAT on their yachts at an attractive VAT rate, in order to allow them to circulate freely within the European Union.

Yacht Leasing structure



Conditions of the Yacht Lease arrangement



Main Conditions:

- the vessel should be put at the disposal of the customer in Cyprus or Malta
- The lessor to be a Cyprus or Maltese company

Other Conditions	Cyprus	Malta
Lessee	<i>Anyone</i>	<i>Anyone</i>
Initial Lease Payment	<i>40%</i>	<i>50%</i>
Lease Period	<i>Up to 4 years</i>	<i>Up to 3 years</i>
Minimum Required Profit	<i>8%</i>	<i>1%</i>
Option to acquire the yacht	<i>Yes</i>	<i>Yes</i>
Purchase Price of the yacht	<i>4% of the original value</i>	<i>1% of the original value</i>

Deemed percentage use in EU waters - Cyprus

- ✓ Standard Cyprus VAT Rate: 19%
- ✓ VAT Rate using the scheme - based on "presumed" lengths of stay within EU waters which depend on the type and length of the yacht.

<i>Length</i>	<i>Deemed percentage use in EU waters</i>	<i>Effective Rate of VAT</i>
Motor Vessels		
24+ m	20%	20% of purchase price x 19% = 3,8%
14,01m – 24m	30%	30% of purchase price x 19% = 5,7%
8,01m - 14m	50%	50% of purchase price x 19% = 9,5%
Up to 8m	60%	60% of purchase price x 19% = 11,4%
Sailing Vessels		
24+ m	20%	20% of purchase price x 19% = 3,8%
20,01m - 24m	30%	30% of purchase price x 19% = 5,7%
10,01m - 20m	50%	50% of purchase price x 19% = 9,5%
Up to 10m	60%	60% of purchase price x 19% = 11,4%

Deemed percentage use in EU waters – Malta

- ✓ Standard Maltese VAT Rate: 18%
- ✓ VAT Rate using the scheme - based on "presumed" lengths of stay within EU waters which depend on the type and length of the yacht.

<i>Length</i>	<i>Deemed percentage use in EU waters</i>	<i>Effective Rate of VAT</i>
Motor Vessels		
24+ m	30%	30% of purchase price x 18% = 5,4%
16,01m – 24m	40%	40% of purchase price x 18% = 7,2%
12,01m - 16m	50%	50% of purchase price x 18% = 9%
Up to 12m	60%	60% of purchase price x 18% = 10.8%
Sailing Vessels		
24+ m	30%	30% of purchase price x 18% = 5,4%
20,01m - 24m	40%	40% of purchase price x 18% = 7,2%
10,01m - 20m	50%	50% of purchase price x 18% = 9%
Up to 10m	60%	60% of purchase price x 18% = 10.8%

How the scheme works



Example1:

Mr. X would like to buy a motor boat of 26 meters length for EUR 15.000.000. He has two options: Either to buy the yacht in his name or on the name of a Maltese company under the scheme.

A. Mr. X buys the yacht in his name

	€
Purchase Price of the yacht	15,000,000
Total VAT expense (18%)	2,700,000

How the scheme works (cont.)



B. Mr. X buys the yacht on the name of a Maltese company under the scheme.

	€
Purchase Price (Maltese Lessor Company)	15,000,000
Profit of the lessor (2% total profit – 1% on lease payments and 1% on final sale of the yacht)	300,000
Amount payable in lease Instalments (Purchase Price +1% of the profit)	15,150,000
Final amount Payable on transfer of title of the yacht to the lessee (1% of the yacht price).	150,000

How the scheme works (cont.)



B. Mr. X buys the yacht on the name of a Maltese company under the scheme. (cont.)

VAT Calculation	€
VAT on instalments ($€15.150.000 \times 5.4\%$ VAT)	818,100
VAT on acquisition of the yacht by the lessee (1% of lease will be chargeable to $€18\%$)	27,000
Total VAT Expense	845,100
VAT Saving ($€2.700.000 - €845.100$)	1,854,900
Approx. 69% VAT Saving	

Aircraft VAT Leasing Scheme



Aircraft VAT Leasing Scheme



Objective:

***To minimise the VAT exposure of the owners
of **Privately** Operated Aircrafts!***

Malta- Aircraft VAT Scheme



The Maltese VAT Authorities published attractive guidelines which regulate the taxation of aircrafts which are leased to third parties by a Maltese Company aiming at the reduction in the VAT rate:

- ✓ Standard VAT Rate: 18%
- ✓ **Using the scheme, only a proportion of the 18% of VAT is charged, due to the fact that the 18% VAT rate only applies within European Union airspace.**

Malta- Aircraft VAT Scheme



Main Conditions:

- ✓ *Both the lessor and the lessee should be Maltese companies*
- ✓ *the lessee shall not be eligible to claim input VAT in respect of the lease.*

Other Conditions:

Lease Period	up to 60 months
Lease instalments	monthly
Required Profit	Yes
Option to acquire the aircraft	Yes

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Malta- Aircraft VAT Scheme



- The computation of the percentage portion of the lease subject to VAT in Malta, is a formula that is dependent on an expert technical study and the following variables;
 - *maximum take off mass in kilograms;*
 - *maximum fuel capacity in kilograms;*
 - *fuel burn;*
 - *optimum altitude in feet; and*
 - *optimum cruising speed in knots.*
- The minimum percentage of time that an aircraft could be deemed to spend within the EU is 30% resulting in a minimum effective VAT charge of 5.4%.

Malta- Aircraft VAT Scheme



- At the end of the leasing period the lessee will have the option to purchase the aircraft from the Maltese company.
- A VAT paid certificate will then be issued, provided that all the VAT on the lease has been duly paid.
- It must be noted that as the lessor will be conducting a business activity, it is expected to make a profit on the aircraft lease agreement over and above the value of the aircraft.

Aircraft Leasing structure

**Beneficial Owner
(BO)**



**Maltese
Company 2
MC2**

**1. Financing for the
acquisition of the aircraft
i.e. Shareholder Loan**

**3. Lease of
aircraft to
MC2
Payments –
VAT paid
quarterly
at reduced
rates**

**Aircraft
Builder/Supplier**

**4. Sale of
Aircraft to MC2**

**Maltese
Company 1**

**2. Maltese Company acquires
aircraft from the aircraft builder without VAT**

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Cyprus - Aircraft VAT Scheme



- ✓ It should be noted that the Cyprus VAT Authorities are currently working on the Cyprus Aircraft VAT Scheme which seems to be an interesting alternative to its Maltese counterpart.

How Kinanis LLC can assist



- ✓ Incorporating and administrating the Cyprus or Malta legal entity which will acquire the boat or aircraft.
- ✓ Drafting the relevant lease agreements.
- ✓ Completing and submitting the relevant application with the VAT Authorities along with the necessary documentation.
- ✓ Completing and submitting the subsequent VAT Reporting.
- ✓ Arranging for the relevant VAT payments.
- ✓ Communicating with the VAT Authorities for any further requirements they may have.