
Cyprus VAT Yacht Leasing Scheme

We would like to inform you that the Tax Department of the Republic of Cyprus has issued on 25 November 2015, Circular No. 198, amending the provisions the Cyprus Yacht Leasing Scheme that was firstly introduced in Cyprus since March 2012.

Definition of Yacht Leasing Agreement

A Yacht Leasing Agreement is an agreement whereby the lessor (the owner of the yacht) transfers the right of use of the yacht to the lessee (the person who leases the yacht) for a specified period and in return the lessee is obliged to pay a consideration.

The leasing agreement might specify that the lessee, at the end of the lease term, has the option to purchase the private yacht for a separate consideration.

The VAT treatment on the agreement for the leasing of Yacht

The leasing of the pleasure Yacht is considered as a supply of services and is VAT taxable in Cyprus under the standard VAT rate (currently 19%) up to the extent that the leased private yacht is used within the territorial seas of the European Union (EU) with the right of recovery of the VAT Input.

As from 1 January 2013, in accordance with paragraph 14 of the Schedule 13 of the Cyprus VAT Law 2000 as amended, the long term leasing of yachts to a person which is not in business, is considered to be the country that the pleasure yacht is actually made available to the lessee, provided that the lessor provides this supply from a

business or fixed establishment which is located at the country that the pleasure yacht is made available to the lessee.

Method of calculating the use of the yacht within EU territorial sea under the Cyprus Leasing Scheme.

It is generally accepted that it is practically impossible to calculate the period of time that the private yacht is used within EU territorial sea and the time period that the private yacht is used outside the EU territorial sea. As an incentive to tax payers, Cyprus has introduced a special scheme for the VAT treatment on leasing of private yachts used for private purposes enabling, tax payers to obtain certainty on the VAT treatment and VAT rates to be imposed. The scheme also reduces administration burden for tax payers as no evidence (log books) are required to be kept in relation with the movement of the yacht but instead a percentage of the lease which is considered to take place within EU has been predetermined in accordance with the type and the length of the private yacht. The relevant percentages of use within the EU and VAT calculation are as follows:

Table A: Motor Boats

Yacht Length	Percentage (%) of use within EU	VAT calculation
Length greater than 65 meters	10%	10% of consideration X 19%
Length between 45,01 and 65 meters	15%	15% of consideration X 19%
Length between 24,01 and 45 meters	20%	20% of consideration X 19%
Length between 14,01 and 24 meters	30%	30% of consideration X 19%
Length between 8,01 and 14 meters	50%	50% of consideration X 19%
Length up to 8 meters	60%	60% of consideration X 19%
Yacht which is authorized to sail in protected waters only	100%	100% of consideration X 19%

Table B: Sailing Boats

Yacht Length	Percentage (%) of use within EU	VAT calculation
Length greater than 65 meters	10%	10% of consideration X 19%
Length between 45,01 and 65 meters	15%	15% of consideration X 19%
Length between 24,01 and 45 meters	20%	20% of consideration X 19%
Length between 20,01 and 24 meters	30%	30% of consideration X 19%
Length between 10,01 and 20 meters	50%	50% of consideration X 19%
Length up to 10 meters	60%	60% of consideration X 19%

Practical Examples

- A) A Sailing Yacht with length greater than 24 meters is considered to be used 20% of the time within the EU territorial sea and 80% of its time outside of EU territorial sea. In this respect the lessor should charge VAT only on the 20% of the leasing instalments, and for the 80% (which the yacht is outside of the EU territorial sea) no VAT should be charged as it is considered as outside of the scope of Cyprus VAT.
- B) A motor yacht with 7 meters length is considered to be used 60% of the time within the EU territorial sea and 40% of its time outside of EU territorial sea. In this respect the lessor should charge VAT only on the 60% of the leasing instalments, and for the 40% (which the yacht is outside of the EU territorial sea) no VAT should be charged as it is considered as outside of the scope of Cyprus VAT.

Conditions that needs to be satisfied for the scheme:

ALL the below conditions should be met in order to apply the specific scheme:

1. The yacht leasing agreement should be made between a Cyprus company (lessor) which is registered in the VAT registry in Cyprus, and the lessee that can be any legal or physical person, irrespective of origin.
2. The yacht must sail to the Republic of Cyprus within one (1) month from the date of the commencement of the yacht leasing agreement. It is up to the discretion of the Commissioner of Taxation to give an extension for the above. However, the extension cannot exceed the time at which the option of purchase of the yacht is exercised.
3. The lessee must pay to the lessor at least 40% of the yacht's value as initial lump sum payment. This amount is subject to the reduced VAT rate (reduced VAT rate will depend on the type and length of the boat - see tables A and B).
4. The lease payment must be payable on a monthly basis and the yacht leasing agreement should not exceed the period of 48 months and not be less than the period of three 3 months (91 days).
5. The lessor is entering into this contractual relationship with the lessee because the lessor expects that its profit will not be less than 5% of the total value of the yacht at the end of the lease term. At the time of commencement of the lease agreement, the total amount of the lease instalments on which VAT will be imposed is increased by 50% of the profit margin (2.5%).
6. The final payment at the end of the lease term, as a result of which the ownership of the yacht is transferred to the lessee, cannot be less than 2.5% of the value of the yacht, which represents part of the agreement's total profit. The final payment for the acquisition of the yacht is subject to VAT at the standard VAT rate which currently is 19%.
7. The written approval of the Commissioner of Taxation must be obtained in advance, confirming the value of the yacht and the applicable amount on which the VAT liability is calculated according to the extent of the use of the yacht within EU

territorial sea. The application must include any documents verifying its value (a latest valuation report from an independent valuer of a competent state and a purchase invoice of the yacht), and with the yacht lease agreement signed between the parties.

It's up to the Commissioner of Taxation to accept or reject the application or to request additional information.

VAT Certificate

Once the Yacht is entered into this scheme, the Tax Department will issue a provisional VAT paid Certificate. If the lessee chooses to buy the yacht at the end of the leasing period, a certificate will be issued by the VAT authorities in Cyprus provided that any VAT amount imposed was actually paid.

Example:

Facts:

A motor Yacht with 30 metres length with a value of €2million and a lease term of 3 months.

Calculation:

	€	VAT %	VAT Amount (€)
Value of the Yacht	2.000.0000		
2.5% of the value of the Yacht (expected profit from the lease payments)	50.000		
Total value of the Yacht	2.050.000		
Less the Initial Contribution paid by the Lessee (40% of the €2million)	(800.000)	3.8% (20%*19%)	30.400

Total amount for the lease instalments	1.250.000	3.8%	47.500
Monthly Instalments (3 months)	416.667		
Final payment 2.5% of the €2million	50.000	19%	9.500
Total VAT amount payable			87.400

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