

CYPRUS YACHT LEASING SCHEME

GENERAL

This special regime applies to yachts owned by a Cyprus company which are leased to physical or legal persons. The purpose of this scheme is to determine the percentage of time a yacht spends within the EU based on the yacht size and type and apply VAT according to this percentage.

INTRODUCTION

On the 13th of March 2012, the Cyprus VAT Authority launched a scheme making Cyprus one of the most attractive EU jurisdictions for yacht registration. According to this scheme, a Cyprus company can enter into a lease-sale agreement of a yacht with a third party, paying VAT only on a considerably reduced VAT rate compared to the standard rate which is 19%, calculated on a percentage of the time that the yacht is deemed to sail within EU waters as is analytically explained below. The effective VAT rate through the use of this scheme can be as low as 1.9%, which is increased to 2.42% when taking into account the required profit condition as it will be explained further.

INTERPRETATION OF THE TERM “LEASING A YACHT” & VAT TREATMENT

For the purpose of this scheme, a yacht lease agreement is an agreement whereby the lessor, being the owner of the yacht, for a certain consideration, contracts the use of the yacht (leases the yacht) to the lessee. For Cypriot VAT purposes the lease of a yacht is subject to the standard VAT Rate (19%) to the extent that the leased yacht is used within EU waters.

However, further to the Yacht leasing scheme, there is no longer need to keep records (log books) as to the time the yacht is used within EU waters. Instead, the relevant percentage will be calculated based on the yacht's size and type (motor or sailing boats), in the manner indicated below:

CONDITIONS:

In order for the Yacht scheme to apply **ALL** of the following conditions must be met:

1. The yacht should actually be physically at the disposal of the customer in Cyprus
2. A lease agreement must exist between a Cyprus company (Lessor) and any legal or natural person, irrespective of origin (we usually suggest the use of the BVI company as the Lessee).
3. The yacht should sail in Cyprus waters within one month from the commencement of the lease agreement.
4. The initial contribution from the lessee to the lessor must be at least 40% of the yacht's value.
5. Lease payments are required to be monthly and the lease period cannot exceed 48 months (compared to 36 months in Malta).

6. The lessor is expected to make a total profit from the lease agreement of at least 5% of the yacht's original value. In the year the lease agreement commences the total amount of lease payments on which VAT is calculated is increased by half of the calculated profit.
7. The lessee may purchase the yacht at the end of the lease period and the final instalment which results to the transfer of the ownership of the yacht to the lessee cannot be less than 2.5% of the yacht's value and is subject to the standard VAT rate (19%).
8. In order for the above percentages to apply a prior written approval from the VAT Commissioner is required. Thus, an application must be filed to the VAT Authorities accompanied by the lease agreement and documentation supporting the purchase price/value of the yacht.

Calculations of the Percentage of the Lease taking place in the EU Waters.

Due to the practical difficulties in calculating the exact time the boat sails within EU waters and the time that it sails outside EU waters, the VAT Authority has determined that the percentage of the lease, taking place in EU waters will depend:

- upon the type of yacht involved e.g. sailing yacht, motor yacht, and
- upon the length of the yacht concerned;

THE VAT AUTHORITY PRESUMES THAT:

Table 1: Motor boats

Boat Length	% use within EU	VAT charge
Longer than 65 meters	10%	1.9% (10% of 19%)
Between 45,01 and 65 meters	15%	2.85% (15% of 19%)
Between 24,01 and 45 meters	20%	3.8 % (20% of 19%)
Between 14,01 and 24 meters	30%	5.7% (30% of 19%)
Between 8,01 and 14 meters	50%	9.5% (50% of 19%)
Up to 8 meters	60%	11.4% (60% of 19%)
Yachts only allowed to be used within protected waters	100%	19% (Standard VAT)

Table 2: Sailing boats

Boat Length	% use within EU	VAT charge
Longer than 65 meters	10%	1.9% (10% of 19%)
Between 45,01 and 65 meters	15%	2.85% (15% of 19%)
Between 24,01 and 45 meters	20%	3.8 % (20% of 19%)
Between 20,01 and 24 meters	30%	5.7% (30% of 19%)
Between 10,01 and 20 meters	50%	9.5% (50% of 19%)
Up to 10 meters	60%	11.4% (60% of 19%)

HOW THE SCHEME WORKS: EXAMPLE

By making use of this scheme the effective VAT charge payable on the yacht's increased value (including lessor's profit) instead of 19%, can be reduced significantly.

For example, if the Client would like to buy a Sailing Boat of more than 65 metres long for EUR 15,000,000 following steps should be taken to take advantage of the Cyprus Yacht Leasing Scheme:

Example	Rates	Value in €	Comments
Total Value of the Yacht	100.0%	15,000,000	
Initial Contribution	40.0%	6,000,000	
VAT on initial Payment	1.9%	114,000	
Sale Price at the Expiration of Lease Agreement	2.5%	375,000	not less than 2.5%
VAT on the Sale Price	19.0%	71,250	
Profit	5.0%	750,000	not less than 5%
Corporation tax	12.5%	93,750	
Monthly Instalments		195,313	
VAT on Monthly Instalments	1.9%	3,711	Total VAT - 243,200€
Total VAT		363,375	Effective VAT: 2,42%
Total VAT Savings		2,486,625	
Savings in %		16.578%	

1. The Client proceeds with the incorporation of a Cyprus company that will purchase the yacht in its name.
2. The Client transfers EUR 15,000,000 for the purchase of the yacht to the Cyprus Company i.e. in the form of a shareholder loan.
3. The Cyprus company enters into a lease agreement (in the capacity of the lessor), for a period up to 48 months with the interested person to use the yacht (the lessee) which in this case can also be the shareholder of the company.
4. Application to the VAT Authority accompanied by documentation supporting the value of the yacht and a copy of the lease agreement concluded between the two parties, as prior approval of the yacht's value and the applicable percentages of its use within EU needs to be obtained by the VAT Commissioner.
5. The yacht should sail to Cyprus within one month from the date the lease-sale agreement of the yacht becomes effective.
6. In this case, as the lessee will be the shareholder who provided the original funding for the purchase, the initial deposit of 40% plus the monthly instalments can be set off against the loan. The only real additional cash outflows would be the actual VAT liabilities.

7. The Cyprus company will be liable to pay the Cyprus VAT Authority the VAT amount designated by the VAT Authority on the initial contribution (€195,313) which is due at the inception of the agreement and VAT on monthly instalments (€3.711) which is due on a monthly basis.
8. The lessee may purchase the yacht at the end of the lease period (48 months) for a final consideration of not less than 2.5% of the value of the yacht which will be subject to 19% VAT, thus the effective VAT rate at the end of the lease period is 2.42%.
9. At the end of the lease period there is **NO requirement** for the yacht to return to Cypriot waters.

OTHER TAXES

- **Corporation Tax:** The lessor is expected to make a total profit from the leasing agreement of at least 5% on the initial value of the yacht. This total profit is subject to income tax at the rate of 12.5%.
- **Stamp Duty Tax:** In order to be able to obtain the approval of the VAT Authority to use the above scheme, the lease agreement must be duly stamped. Stamp duty is calculated on the value of the agreement at 0.15% for the first €170.860 and at 0.2% thereafter, having as ceiling the amount of €17.086 per agreement. The due date for such stamp duty payment is within 30 days from the day of the signing of a document, which is considered to be subject to stamp duty.

HOW MANN MADE GROUP CAN HELP

We can establish the yacht holding structures and provide ongoing services to include the provision of corporate services (the provision of officers, registered office etc.), plus ongoing administration & management, tax registration, bank account opening, tax compliance, bookkeeping and accounting services and other services if required.

With regards to Yacht Registration and the Cyprus Yacht Leasing Scheme we will assist by:

- Applying in writing to the VAT Authorities and negotiation to establish the applicable rate of VAT and obtain a letter of confirmation
 - Register your Company under the laws of Cyprus
 - Draft the Memorandum and Articles and statutory documents of the Company
 - Register the company with the VAT authorities
 - Draft and prepare the lease agreement and any supporting documentation required
 - Collect and collate any and all necessary legal documents
 - File all relevant documentation with VAT Authorities
 - Account for VAT, including the preparation and submission of VAT returns
 - Arrange for the issue of a "VAT Paid" certificate.
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CONTACT US

For more information on Cyprus structures, the services we can provide and our costs, please contact Patrick Corrigan at:

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