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Cyprus VAT

Yacht Leasing Scheme

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Cyprus VAT Yacht Leasing Scheme

On 13 March 2012, the Cyprus Tax Authorities published guidelines clarifying the VAT treatment of Yacht Leasing Schemes, effectively introducing **the most attractive VAT yacht regime in Europe**. As a result, by using the new Cyprus Yacht Scheme, VAT can potentially be reduced to as low as 1.90% of the initial value of the pleasure yacht, less than the 5.4% applicable in Malta under their corresponding Yacht Leasing Scheme.

Under the VAT on Yacht Leasing Scheme Regulations of 13 March 2012, only a percentage of the lease value should be subject to Cyprus's standard VAT rate of 19%. Depending on the size of the yacht concerned, the effective rate of VAT will vary from 1.90% to 11.4% of the lease value. The variable VAT percentage is based on length, type of yacht (motor or sailing) and the yacht's percentage of use within EU territorial waters.

The assumptions of the new guidelines relating to the Cyprus Yacht Leasing Scheme, with regards to size of the vessel versus percentage of time spent in EU territorial waters are as follows:



Motor Yachts

Length	% of deemed time yacht spent in EU waters	Effective % rate of VAT
8 meters	60%	11.4 % (60% of 19%)
8.01 to 14 meters	50%	9.5 % (50% of 19%)
14.01 to 24 meters	30%	5.7 % (30% of 19%)
24.01 to 45 meters	20%	3.8 % (20% of 19%)
45.01 to 65 meters	15%	2.85 % (15% of 19%)
Above 65.01 meters	10%	1.90 % (10% of 19%)



Sailing Yachts

Length	% of deemed time yacht spent in EU waters	Effective % rate of VAT
10 meters	60%	11.4 % (60% of 19%)
10.01 to 20 meters	50%	9.5 % (50% of 19%)
20.01 to 24 meters	30%	5.7 % (30% of 19%)
24.01 to 45 meters	20%	3.8 % (20% of 19%)
45.01 to 65 meters	15%	2.85 % (15% of 19%)
Above 65.01 meters	10%	1.90 % (10% of 19%)

For yachts licensed for use only within Cyprus waters, the effective VAT rate will remain 19%.

Important conditions regarding the Financial Leasing Agreement that should be taken into account while considering the Cyprus Yacht Leasing Scheme include the following:

- The yacht must arrive in Cyprus within one month of the date of inception of the lease agreement. Any postponement to the above can be granted only by the Cyprus VAT Commissioner. The delay in any case cannot exceed the lease period whereby the right of purchase can be exercised.
- The lease agreement shall be between a Cyprus resident company, registered for VAT in Cyprus, and any person/company, irrespective of their nationality/domicile. It should be noted that full anonymity and confidentiality can be preserved through corporate structures.
- Initial lease fee should be at least 40% of the value of the yacht.
- Lease payments should be payable on a monthly basis, along with the applicable VAT based on the rates described above.
- The lease period should not be for less than 3 months (90 days) cannot exceed 48 months (in comparison to 36 months in Malta).
- The yacht may be purchased outright by the lessee at the end of the lease period. The final payment should not be less than 2.5% of the initial value of the yacht. Such final payment is subject to VAT at the standard rate of 19%.
- A yacht valuation certificate should be submitted along with the leasing agreement and application for approval to the Cyprus Commissioner to confirm the effective VAT rate in each case. Every application for yacht leasing is considered separately on a case-by-case basis and requires separate written approval by the Cyprus VAT Commissioner.
- The purchase will be confirmed by the Tax Department in the form of a certificate, stating the total VAT liability.
- The profit from the lease agreement derived by the lessor should not be less than 5% of the initial value of the yacht.
- At the time of commencing the lease agreement, the total of lease payments that are taken into consideration for calculating the total VAT payable, should be increased by the 50% of the profit i.e. 2.5%.

The procedure for the approval of the VAT scheme is summarized below as follows:

1. Prior Approval by the Cyprus VAT Commissioner; upon submission of relevant details of the pleasure yacht, which will include certification and survey of the vessel, bill of sale, an application in writing to the Cypriot Tax Department will need to be submitted, for a prior confirmation of the applicable rate of VAT.
2. Registration of Cyprus Limited Liability Company (CypCo);
3. CypCo will apply for VAT registration;
4. CypCo and Lessee enter into Yacht Lease Agreement;
5. Lease agreement and supporting documentation (including but not limited to certification, specification list, surveyor's valuation, and bill of sale if bought new) to be submitted to the Tax Department;
6. Upon review of written request, the Cyprus Tax Department will issue a letter of approval confirming the applicable rate of VAT.

To illustrate the above, the following is a numerical example depicting the VAT and Corporate Income Tax arising from the yacht registration and leasing scheme:

- A motor propelled yacht with an initial value of €2,000,000;
- The yacht has a length of 25 meters;
- Lease agreement duration of 48 months, being the maximum allowable under the VAT scheme;
- As at the date of commencement of the lease agreement, the lessee (CypCo) will pay 40% of the value of the yacht, namely €800,000 (i.e. 40% of € 2,000,000), with the balance of €1,200,000 being payable over 48 months;
- Purchase option value will be 2.5% of initial value, hence €50,000;
- Taking into account that a 5% profit margin must be maintained for Corporate Income Tax purposes, expected profit of €100,000 will arise;
- The applicable rate of VAT, which is based on size of the yacht, will be 3.8% (i.e. 20% of the standard rate of 19%).



VAT due on Yacht Leasing Scheme



DESCRIPTION	AMOUNT IN EUR (€)
VAT due upon initial payment of €800,000 (A)	€30,400 (€800,000 * 3.8%)
VAT due on payment of purchase of yacht at end of lease period for €80,000 (B)	€15,200 (€800,000 * 19%)
Expected profit of 5%	€100,000 (€2,000,000 * 8%)
Balance to be paid on initial to find installment (i.e. 47 installments if exclude first installment where down payment is made)	€1,200,000 (2,000,000 + €50,000 - €800,000 - €50,000)
Value of each monthly installment, before VAT of 3.8%	€25,531.91 (€1,200,000 / 47 installments)
Total VAT due on all regular montly installments (C)	€45,600 (€1,200,000 * 3.8%)
TOTAL VAT DUE ON LEASE SCHEME (A+B+C)	€91,200



It should be noted that once the lessee exercises the option to acquire the yacht at the end of lease period, and furnishes the Tax Department with supporting documentation of the same (i.e. invoice in relation to the aforesaid 2.5% and the applicable bill of sale), the Cypriot VAT Department will proceed to issue a VAT paid certificate confirming that all VAT due has been paid on the yacht.

Corporate Income Tax Due on Scheme

CypCo, being the lessor, is a Cyprus company, which if tax resident is subject to Corporate Income Tax (CIT) at the flat rate of 12.5%. Although in theory the CypCo can also be a non resident Cyprus company (i.e. company whereby management and control is not exercised in Cyprus) and thus not subject to Cyprus tax, we do not advise this due to foreign tax implications that may be created.

As such, CypCo, if tax resident in Cyprus, would be subject to 12.5% CIT on the €100,000 profit that would ensue during the life of the lease agreement, hence €12,500 (all administration expenses such as accounting, audit etc. will be disallowed for tax purposes for maintaining the 5% profit margin).

Savva & Associates and our team of VAT experts can assist you with the full implementation of a Cyprus Yacht Leasing Scheme, substantially decreasing your VAT exposure upon purchase of a pleasure yacht. We are able to assist fully with the setting up and ongoing administration of the appropriate yacht-owning company in Cyprus, yacht registration, outfitting of the yacht if necessary and handling all arrangements on your behalf.

For more information regarding the Cyprus Yacht Leasing Scheme, please contact **Charles Savva** at +357 22 516 671, or by email c.savva@savvacypus.com.

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