



cutting through complexity

INDIRECT TAX SERVICES

Cyprus Private Aircraft Regime ('CPAR')

Choosing Cyprus

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The Cyprus Private Aircraft Regime was introduced in 2015 making Cyprus one of the most attractive jurisdictions for private aircraft registration in the EU. On the basis of the guidelines issued by the Cypriot Tax Authorities, the effective Tax rate is reduced to as low as 5%.

The Cyprus Private Aircraft Regime focuses on aircrafts which are mainly used for private and not for business purposes. The CPAR adopts the general place of supply rules together with the special effective use and enjoyment provisions incorporated in the Cyprus VAT Act.

What is the interpretation of private aircraft leasing agreement?

For the purposes of the CPAR, an agreement for the leasing of a private aircraft (PA) is an agreement according to which the lessor (the owner of the PA) enters into a contract with the lessee (the person who leases the PA) for the use of the PA by the lessee for a consideration. Additionally, this agreement may, at the end of the leasing term, grant the option to the lessee to purchase the aircraft at a price being a percentage on the initial value of the aircraft. The final purchase is strictly an option which may be exercised at the end of the PA's leasing period for a separate consideration.

How is the leasing agreement treated for VAT purposes?

As from 1 January 2013, based on Paragraph 14A of Schedule 13 of the Cyprus VAT Act, the long-term leasing of aircrafts to non-taxable persons (except for the short-term leasing) is the country of establishment or permanent

residence or usual place of residence of the lessee.

Provided that the lessee is established or has his permanent residence or his usual place of residence in the Republic, the leasing of a PA constitutes a supply of a taxable service subject to the standard VAT rate (19%) to the extent that the leased aircraft is used within EU airspace. On the contrary, to the extent that the leased aircraft is used outside EU airspace, the leasing of a PA falls outside the scope of VAT, as a result of which no VAT is payable in the Republic.

How is the use of the aircraft within EU air space calculated?

It is generally accepted that there are practical difficulties to accurately record the movements of an aircraft in order to determine the time it spends within the air space of the EU and the time it spends outside the EU. For this purpose, the percentage of time spent within and outside EU air space is predetermined according to the takeoff weight of the PA and the type of the aircraft's engine (jet, piston, turbo). Consequently, there is no requirement to maintain any documentary evidence including the PA's log books in relation to the places where the PA flies.

Are there any specific conditions?

For the CPAR to apply the following conditions must be satisfied:

- (a) The aircraft lease agreement must be between a Cyprus established company and any physical or legal person also established in Cyprus not exercising any economic activity.
- (b) The aircraft must fly to Cyprus within two months from the date of signing the lease agreement. An extension with regards to the two months period may be given only by the VAT Commissioner. However, it is understood that the extension under no circumstances could be extended over the time at which the right of purchase of the aircraft is exercised by the lessee.
- (c) An initial lump sum payment of at least 40% of the aircraft's value must be paid by the lessee to the lessor (This however, does not mean that the lessee will actually pay 40% upfront. The percentage is just to ensure that 40% of the resulting VAT will be paid up front).
- (d) The lease payments must be payable on a monthly basis and the term of

the lease agreement cannot be less than 3 months (91 days) or exceed the period of 60 months.

- (e) The lessor is expected to attain a profit margin from the lease agreement of not less than 5% of the total value of the aircraft. At the time of commencement of the lease agreement, the total amount of the lease installments, on which VAT is calculated, is increased by half of the profit margin, i.e. 2.5%
- (f) The final payment at the end of the finance lease term, as a result of which the legal ownership essentially is transferred to the lessee, cannot be less than 2.5% of the value of the aircraft, which represents part of the agreement's total profit. The last payment is subject to the prevailing standard rate of VAT regardless of whether the lessee exercises the option to buy or not.
- (g) The written approval of the VAT Commissioner is required to be obtained in advance, confirming the value of the aircraft and the applicable amounts on which VAT will be levied according to the extent of its use within EU airspace. The application must be accompanied by a certificate designating the value of the aircraft such as independent valuation from a registered valuer of a competent state and/or other evidences determining the value of the aircraft such as invoices, insurance certificate stating the insured value, financier's valuation etc. as well as the lease agreement entered into by the parties. It is noted that where the aircraft is purchased new the invoice from the manufacturer and the contract of purchase will suffice. As far as second hand aircraft is concerned, a recently independent valuation performed by a professional valuer as well as original purchase invoices and purchase agreements must be accompanied by the application for submission to the regime. In case there is no independent valuation, other evidences must be produced assisting the Commissioner to confirm the value of the aircraft. Together with the application the following documents must also be provided:
 - i. Noise certificate,
 - ii. Type certificate (manufacturer),
 - iii. Certificate of airworthiness and
 - iv. Airworthiness review certificate

- (h) The private aircraft may be registered in any register in the world and not necessarily in Cyprus.
- (i) If the aircraft is exclusively used within Cyprus air space, the leasing services are subject to the standard rate of VAT.

Transfer of existing leases

The Tax Commissioner, following a request by interested parties, legal or physical lessors or users of private aircraft, may grant them a permission so that their leases continue to be accounted for in the Republic for the balance of the lease term based on conditions set by the CPAR.

The Commissioner’s right covers the cases where the lease is transferred from another member state to the CyCo as well as the cases where the CyCo subleases as an intermediary lessor as long as the sub-lessee belongs or has his permanent residence in the Republic and the option to purchase is included in the lease agreement.

It is understood that the Tax Commissioner may reject any application filed or request from the lessor additional details regarding the use of the aircraft.

What are the applicable Tax effective rates?

Provided that the above conditions are fulfilled, the effective Tax rates are shown on the tables below:



VAT Certificate

If the lessee elects to purchase the aircraft at the end of the lease term or at an earlier time after three months since entering the regime have elapsed, a certificate will be issued certifying that the VAT has been paid under the condition that all VAT payable has been paid and that no claim has been submitted for a refund.

T2L certificate. In the case where the lessor-owner does not pay any VAT on the monthly lease payments, import VAT will be demanded by the Customs director to be fully paid.

T2L Certificate

When the VAT on the balloon amount is paid (40% of the value), the lessor may custom clear the aircraft in the Republic and the Customs director will issue a

Table A: Piston Engine Aircraft		
Weight (Max Take-off weight)	Percentage use within EU air space	Effective Tax rate
Light: 1KG – 3.000KG	100%	20,58%
Small: 3.001KG – 5.700KG	80%	16,68%
Medium: 5.701KG – 15.000KG	60%	12,79%
Large: Over 15.001KG	40%	8,89%

Table B: Turboprop Aircraft		
Weight (Max Take-off weight)	Percentage use within EU air space	Effective Tax rate
Light: 1KG – 3.000KG	55%	11,81%
Small: 3.001KG – 5.700KG	45%	9,86%
Medium: 5.701KG – 15.000KG	35%	7,92%
Large: Over 15.001KG	25%	5,97%

Table C: Jet Aircraft		
Weight (Max Take-off weight)	Percentage use within EU air space	Effective Tax rate
Light: 1KG – 3.000KG	50%	10,84%
Small: 3.001KG – 5.700KG	40%	8,89%
Medium: 5.701KG – 15.000KG	30%	6,94%
Large: Over 15.001KG	20%	5,00%

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