



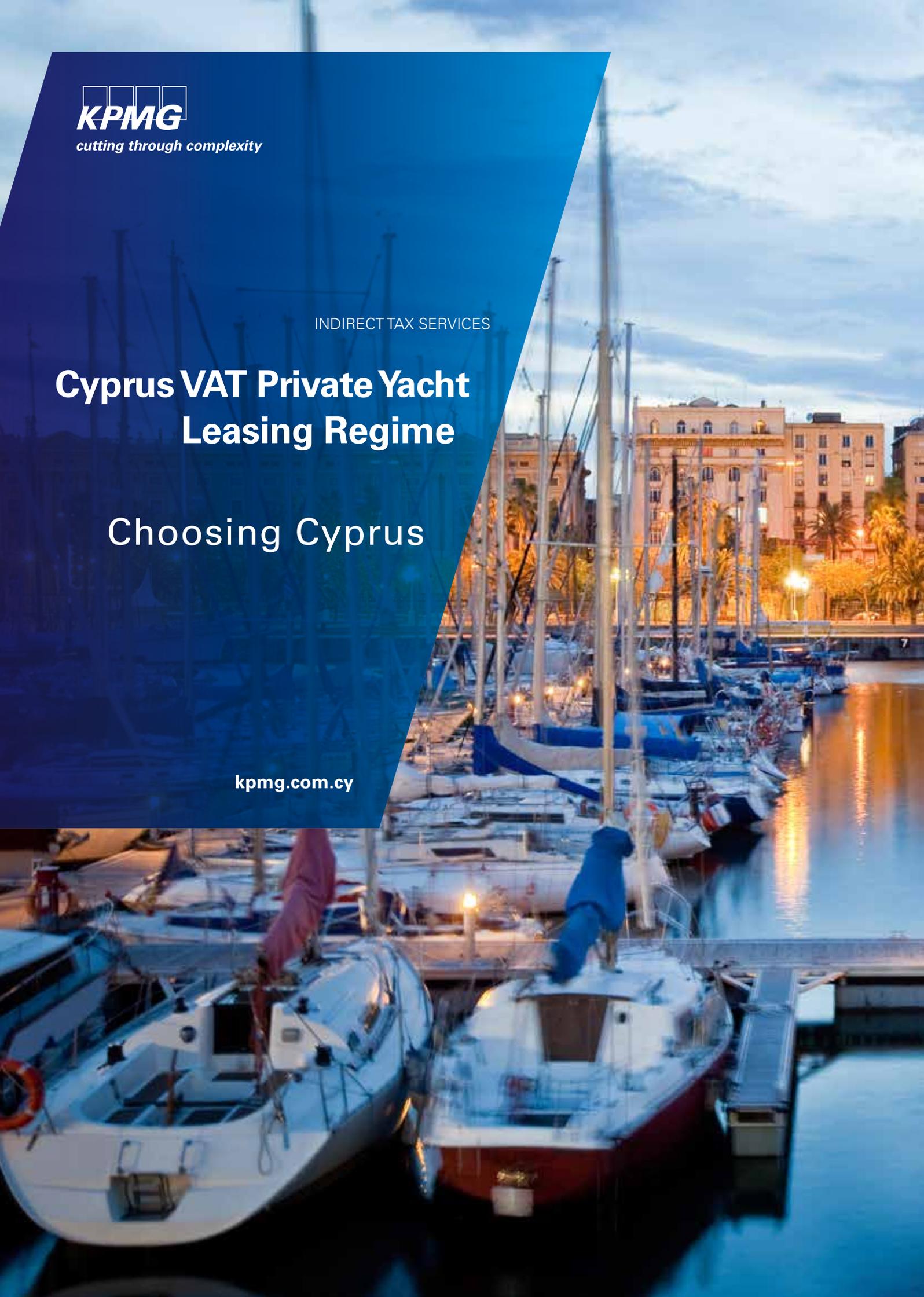
cutting through complexity

INDIRECT TAX SERVICES

Cyprus VAT Private Yacht Leasing Regime

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Cyprus VAT Private Yacht Leasing Regime

Cyprus has been running a private yacht regime since March 2012 aiming at relieving the VAT burden on the purchase of yachts intended to be used mainly and exclusively for private purposes.

In 2015 the Cypriot Tax Authorities issued new guidelines, amending the originally introduced Regime, making Cyprus one of the most attractive jurisdictions for yacht registration in the EU. On the basis of the new guidelines, the effective Tax rate is reduced to as low as 3,05%.

What is the interpretation of a Yacht leasing agreement?

A Yacht leasing agreement is an agreement whereby the lessor (the owner of the Yacht) enters into a contract with the lessee (the person who leases the Yacht) for using the Yacht for a consideration. Additionally, the agreement may, at the end of the lease, grant the option to the lessee to purchase the Yacht at a price being a percentage on the initial value of the Yacht. The final purchase is strictly an option which may be executed at the end of the Yacht's leasing period for a separate consideration.

How are the leasing services treated for VAT purposes?

For VAT purposes, the leasing of a Yacht constitutes a supply of services with a right of claiming input VAT, on the value of the yacht. The supply of the leasing services constitutes a taxable transaction subject to the standard VAT rate of 19% to the extent the Yacht under lease is used within EU waters.

What is the essential prerequisite for the Regime to operate?

An essential prerequisite for the Yacht Regime to operate is the lessor's place of origin (establishment), which must be a company registered under the Republic's Companies Law whilst the

lessee may be either a legal or natural person regardless of the place of establishment or residence.

How is the use of the yacht within EU territorial waters calculated?

It is generally accepted that there are practical difficulties to trail the movements of a yacht in order to determine the time that the yacht spends within the territorial waters of the EU and the time it spends outside the EU. For this purpose, the percentage of the time spent within EU has been predetermined. These percentages are determined according to the type (motorboat or sailing boat) and length of the yacht. Consequently, there is no requirement to maintain any documentary evidence including the yacht's log books in relation to the places the yacht travels.

Are there any specific conditions?

The VAT treatment prescribed in the Yacht Leasing Guidelines is subject to satisfying all of the following conditions:

- The Yacht leasing agreement must be between a Cyprus established company and any physical or legal person irrespective of origin.
- The Yacht must sail to the Republic within one month from the date



of signing of the lease agreement. Any time extension with regards to the one month period may be given only by the Tax Commissioner. It is understood that the extension under no circumstances can exceed the time at which the right of purchase of the Yacht by the lessee is exercised

- An initial lump sum payment of at least 40% of the Yacht's value and corresponding VAT amount must be paid by the lessee to the lessor
- The lease payments must be payable on a monthly basis and the term of the lease agreement cannot exceed the period of 48 months
- The lessor is expected to attain a profit margin from the lease agreement of no less than 5% of the total value of the Yacht.
- The final payment at the end of the leasing term, the result of which the legal ownership essentially 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 last payment is subject to the prevailing standard rate of VAT (19%)
- The advanced written approval of the Commissioner is required for approving the value of the yacht and the applicable amounts on which VAT will be levied according to the



extent of its use within EU waters. The application must be accompanied with a certificate certifying the value of the yacht as well as the leasing agreement which is entered into between the parties.

It is understood that the Commissioner may reject any application filed for this reason or to request from the lessor additional details regarding the use of the yacht.

What are the applicable Tax effective rates?

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

Example

- The assessed value of the yacht is €2m.
- The length is 50 meters.

VAT payable outside the Regime: €380.000

VAT payable within the Regime: approx. €80.000

Table A: Motor boats

Boat length	Percentage of use within EU waters	Effective Tax rate
Greater than 65 meters	10%	3,05%
Between 45,01 and 65 meters	15%	4,02%
Between 24,01 and 45 meters	20%	5,00%
Between 14,01 and 24 meters	30%	6,94%
Between 8,01 and 14 meters	50%	10,84%
Up to 8 meters	60%	12,79%

Table B: Sailing boats

Boat length	Percentage of use within EU waters	Effective Tax rate
Greater than 65 meters	10%	3,05%
Between 45,01 and 65 meters	15%	4,02%
Between 24,01 and 45 meters	20%	5,00%
Between 20,01 and 24 meters	30%	6,94%
Between 10,01 and 20 meters	50%	10,84%
Up to 10 meters	60%	12,79%

For any further information with regard to the above you may contact:

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200515