

# Cyprus Yacht Leasing Scheme

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## Introduction

For the past 50 years Cyprus has developed into a formidable maritime centre renowned for its high quality shipping services. As of the end of 2012, Cyprus had the 10<sup>th</sup>-largest fleet in the world.

Local legislators introduced a new pleasure yachts leasing scheme in March 2012, providing a simplified way to identify the VAT and tax treatment for Cyprus companies that act as yacht lessors. Since then, Cyprus has become an attractive jurisdiction to register yachts in Europe as the scheme provides significant tax benefits when compared to similar EU Member states.

## The scheme

Under Cyprus VAT legislation the leasing of a Cyprus-registered yacht is considered to be a provision of services, and as such the leasing of yacht is subject to Cyprus VAT at the normal rate of 18% based on the assumption that the yacht is confined within EU territorial waters. The legislation allows for output VAT to be reduced for the time spent navigating outside EU waters. Previously there was a large amount of administration as the lessor had to keep detailed logs for the whereabouts of his vessel, often resulting in disputes with the Department of Inland Revenue.

The scheme's introduction simplified the method of determining applicable VAT on the yacht's usage as it assumes that the time spent outside EU waters increases with the size of the yacht. Based on this assumption, an advance estimation of VAT is made according to the yacht's size and type.

On the accounting side this scheme assumes that the lessor is entering into a finance lease with the lessee (who can be a legal or physical person resident in any jurisdiction) for the usage of the yacht. The scheme allows VAT savings of up to 80% to the lessor, based on the size and type of the vessel. The lessee is also granted a possible option to purchase the vessel at the expiration of the lease for a predetermined price.

## The terms

Under the new scheme the size and the type of yacht replaces the percentage for usage in EU waters, and the effective VAT rate is now calculated based on the following tables:

**Table A: Motor boats**

Length	Percentage of usage within EU	Effective VAT Rate
Over 24 meters	20%	3.60%
Between 14.01 and 24 meters	30%	5.40%
Between 8,01 and 14 meters	50%	9.00%
Up to 8 meters	60%	10.80%
Restricted use within Cyprus protected waters	100%	18.00%

**Table B: Sailing Boats**

Length	Percentage of usage within EU	Effective VAT Rate
Over 24 meters	20%	3.60%
Between 20.01 and 24 meters	30%	5.40%
Between 10,01 and 20 meters	50%	9.00%
Smaller than 10 meters	60%	10.80%

## The conditions

In order for the scheme to apply all the following conditions should be met:

- The lessor must be a Cypriot registered company. There are no restrictions for the lessee.
- The yacht should sail in Cyprus within one month of the date of the lease agreement. In case an extension is needed, this should be agreed with the Commissioner of VAT prior to the commencement of the scheme.
- The lessee must pay the lessor an initial contribution of at least 40% of the yacht's value.
- The lease payments are payable on a monthly basis and the duration of the lease cannot exceed 48 months.
- The lessor is expected to have a profit on the lease agreement of no less than 8% of the yacht's initial cost.
- The final payment at the expiration of the lease agreement - resulting in the yacht's ownership being handed over to the lessee - cannot be less than 4% of the initial cost of the yacht. This consideration is subject to VAT at the normal rate of 18%.
- Prior to the commencement of the scheme the lessor should obtain a written approval from the Cyprus VAT authority that the company is entitled to participate in the scheme. Following approval, the VAT rate to be used during the whole life of the scheme will be clearly stated by the Cyprus VAT authority. In order for such a permission to be granted, the lessor must file the lease agreement and the relevant paperwork showing evidence of the value of the yacht.

## Certificate of VAT paid

If the lessee exercises the option to buy the yacht on the expiration of the lease, the VAT authorities will issue a certificate that all VAT due has been paid.

## Illustrative example for VAT and Corporation Tax of a yacht, 30 meters long, with a cost price of €5 million.

Initial contribution @ 40% of cost	€2 million
VAT on initial payment @ at 3.6% (i)	€ 72,000
Sale price at the expiration of the lease @ 4% of cost	€ 200,000
VAT on sale price @ 18%(ii)	€ 36,000
Corporation tax @ 8% of the cost @ 12.5% being the tax rate	€ 50,000
VAT on monthly instalments of 2.8 million @ 3.6%(iii)	€ 100,800
Total contributions to VAT (i), (ii), (iii)	€ 208,800
Total contributions to Cyprus Income Tax	€ 50,000
Total VAT savings from standard rate (initial cost @ 18%)	<b>€ 691,200</b>

## Corporation Tax treatment

The profit made by the lessor is subject to Corporation Tax in Cyprus under normal tax rate of 12.5%.

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