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CYPRUS YACHT LEASING SCHEME

Interpretation of the Cyprus Yacht Leasing Scheme

A yacht leasing scheme is an agreement whereby the lessor (the owner of the yacht) contracts the use of the yacht to the lessee (the person who leases the yacht) in return for a consideration.

At the end of the lease period, this agreement may provide the possibility to the lessee to purchase the yacht at a fraction of the original price. The final purchase is strictly an option which may be exercised by the lessee, at the end of the lease period, for a separate consideration.

Vat treatment of the yacht leasing agreement

For vat purposes, the leasing of the yacht is considered as a supply of services with the right of deduction of input vat by the lessor. The supply of such services by the lessor is considered as taxable supply, which is subject to the basic vat rate of 17%, to the extent that the leased yacht is used within the territorial waters of the European Union (EU). A basic condition which applies is that the lessor should be a company registered in the Registrar of Companies in the Republic of Cyprus. The lessee could be an individual or legal person, irrespective of residence or place of incorporation.

Calculation of the use of yacht within the EU territorial waters

It is generally accepted that there are some inherent difficulties of trailing the movements of each yacht in order to determine the time that the yacht is used within the territorial waters of the EU and the time is used outside the EU.

Therefore, there is no need to maintain, for vat purposes, any detailed record or log books of the movements of the yacht.

As a result, it has been determined that the Cyprus vat will be applied on a percentage of the lease consideration. The applicable percentages depend on the length and type of yacht (motor or sailing boats/yachts).

Table A: Motor boats

Length of yacht	Percentage (%) of use within EU waters	Calculation of VAT	Effective VAT rate
Over 24 meters	20%	20% of the consideration @ 17%	3,40%
14,01 – 24 meters	30%	30% of the consideration @ 17%	5,10%
8,01 – 14 meters	50%	50% of the consideration @ 17%	8,50%
Up to 8 meters	60%	60% of the consideration @ 17%	10,20%
Boats allowed to sail only within protected waters	100%	100% of the consideration @ 17%	17%

Table B: Sailing boats

Length of yacht	Percentage (%) of use within EU waters	Calculation of VAT	Effective VAT rate
Over 24 meters	20%	20% of the consideration @ 17%	3,40%
20,01 – 24 meters	30%	30% of the consideration @ 17%	5,10%
10,01 – 20 meters	50%	50% of the consideration @ 17%	8,50%
Up to 10 meters	60%	60% of the consideration @ 17%	10,20%

Conditions for applying VAT

The vat treatment prescribed above will apply if all the following conditions are met:

1. A lease agreement is concluded between a Cyprus company and an individual or legal person, irrespective of residence or place of incorporation.
2. The yacht arrives in Cyprus within 1 month from the date of inception of the lease agreement. Any extension of the above-mentioned time limit may only be granted by the Commissioner of VAT. Such extension shall not exceed under any circumstances the time at which the option to purchase the yacht is exercised.
3. An initial payment amounting to at least 40% of the value of the yacht must be paid by the lessee to the lessor at the inception of the lease agreement.
4. The lease payments are payable on a monthly basis and the lease period must under no circumstances exceed the period of 48 months.
5. The lessor is expected to make a total profit from the leasing agreement of at least 10% on the initial value of the yacht.
6. The lessee may purchase the yacht at the end of the lease period, for a final consideration of not less than 5% of the value of the yacht.
7. The prior written approval of the Commissioner of VAT needs to be obtained. Such approval will cover the acceptability of the initial value of the yacht and the applicable percentage of the use within EU waters on the basis of which vat will be applied. The application to the Commissioner must be accompanied by certificate supporting the value of the yacht and the lease agreement concluded between the two parties. The Commissioner may reject any application or ask the lessor for further information regarding the use of the yacht.

Certificate for payment of vat

In the case where the lessee exercises the option to buy the yacht at the end of the lease period, the Vat Authorities will issue a certificate to the lessee confirming full payment of the total vat liability, provided that all the vat liability has been paid.

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This publication is intended as a general guide only and its application to specific situations will depend on the particular circumstances involved. Accordingly, we recommend that readers seek appropriate professional advice regarding any particular problems that they encounter. This information should not be relied upon as a substitute for such advice.

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