



Yacht Leasing in Cyprus

07 July 2017

Cyprus introduced a Yacht Leasing scheme which, inter alia, has VAT benefits for prospective owners (or new owners) of yachts that wish to use them in European waters. The Cyprus Yacht Leasing Scheme is similar in many respects to similar arrangements offered by other European countries but is considered one of the most attractive Yacht Leasing schemes within the EU.

Yacht Leasing in a snapshot

- ✓ Generally means a Cyprus company (owning the yacht) entering into a lease contract with (giving right to use of its yacht to) the lessee (legal or physical person) in return for a certain consideration payable in monthly instalments (the “Lease”).
- ✓ At the end of the contract period, the lessee may have the option to purchase the yacht for an additional consideration (which could be nominal or not).
- ✓ VAT is payable on the Lease.

1. General Guidelines on VAT treatment of a Yacht Lease in Cyprus:

- The Lease is a Vatable transaction, taxable at the basic VAT rate of 19% but **only to the extent that the leased yacht is used** within the EU territorial waters;
- For the purpose of determining the ‘extent to which the yacht is used’ within EU territorial waters, the VAT authorities rely on certain fixed presumptions (presumed time used based on the length and type of the yacht), namely as follows:

Type of Craft	Sailing boats or motor boats over 65 metres in length	Sailing boats or motor boats between 45,01 metres and 65 metres in length	Sailing boats or motor boats between 24,01 and 45 metres in length	Motor boats between 14,01 and 24 metres in length	Sailing boats between 20,01 and 24 metres in length	Motor boats between 8,01 and 14 metres in length	Sailing boats between 10,01 and 20 metres in length	Motor boat or Sailing boats up to 8/10 metres in length	Craft permitted to sail in protected waters only
Presumed % of use within EU	10%	15%	20%	30%	30%	50%	50%	60%	100%
Resulting VAT (approx)	1.9%	2.85%	3.8%	5.7%	5.7%	9.5%	9.5%	11.4%	19%

- The lessor shall be expected to make a profit from the leasing agreement. Such profit shall not be lower than 5% of the total value of the Yacht. In addition, the final payment at the end of the Lease (if the option is exercised) as a result of which the ownership of the Yacht passes to the lessee shall not be less than 2,5% of the value of the yacht. The final lease payment is chargeable to VAT at 19%.
- Effect of the above is that the total VAT cost is slightly higher than above figures suggests.

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Yacht Scheme in Cyprus

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2. Conditions for eligibility:

- The Yacht must sail to Cyprus within one month from the commencement of the Lease. Any extension on the above time limit may be allowed only by the Commissioner;
- An initial contribution equal to at least 40% of the Yacht's face value shall be effected from the lessee to the lessor;
- The Lease instalments shall be payable on a monthly basis and the lease agreement shall not exceed 48 months;
- Prior approval must be sought in writing from the Commissioner of VAT who must approve the value of the yacht and the applicable percentage on which VAT is chargeable according to the use of the yacht in EU territorial waters.

3. Issuance of Certificate

- In case the lessee opts to buy the Yacht at the end of the finance lease term, a VAT Certificate may be issued by the VAT Authorities to the lessee, confirming that the VAT due on the transaction has been settled.

It is strongly recommended that advice is sought in advance for each particular case, especially in the event of contemplating a yacht acquisition. The partners and advisors of our Firm are at your disposal for any clarifications and to provide guidance and advice, as well as more detailed analysis of the relevant payments and VAT charges, as well as to provide any assistance that may be required (whether with respect to the drafting of relevant agreements or with respect to customs formalities, mooring arrangements or similar).

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