

**The new Cyprus VAT Leasing Scheme for Yachts***August 2012***Introduction**

In March 2012, the Cypriot Value Added Tax (VAT) Services Department published guidelines on the VAT Leasing Scheme for Yachts. The new guidelines allow yacht owners to benefit from reduced VAT rates. They also involve a favourable option to purchase a leased yacht at an agreed price.

The purchase cost of a pleasure craft used exclusively for pleasure is subject to VAT if the vessel is brought into the EU and used in EU waters. If the vessel is used partly outside EU waters the percentage of the cost subject to VAT may be reduced to reflect this.

Effectively, the scheme allows for VAT rates to be reduced to as low as 3.4% of the initial value of a yacht which is less than the equivalent rates in other favoured jurisdictions.

The percentage of the cost subject to VAT is determined according to the type and the length of the vessel.

**VAT Rates****Effective VAT rates**

Under the VAT on Yacht Leasing Regulations of March 13 2012, only a percentage of the lease value should be subject to Cyprus's standard VAT rate of 17%. Depending on the size of the yacht concerned, the effective rate of VAT will vary between 3.4% to 10.2% of the lease value

**Lease terms**

The Cyprus scheme requires an initial lease payment of 40% and allows a lease period of 4 years. Although compared to Malta, Cyprus requires a higher profit to be earned by the lessor over the term of the lease (10% compared to 1%) and sets a higher minimum price for the lessor to purchase the vessel at the end of the lease (5% of the original cost compared to 1%).

Cyprus is a well-established maritime centre with many other advantages, in terms of its location, communications and environment, and the new leasing scheme makes it a formidable competitor in the pleasure craft sector.

**Conditions**

For the VAT rates to apply the following conditions must be satisfied:

- The agreement must be made between a Cyprus established company and any physical or legal person irrespective of origin.
- The vessel must sail to Cyprus within one month of signing of the lease agreement.
- Initial lump sum payment must be at least 40% of the value of the vessel
- The lease payments must be payable on a monthly basis and the term of the lease agreement cannot exceed 48 months.

- The lessor is expected to attain a profit margin from the lease agreement of at least 10% of the value of the vessel.
- The final payment cannot be less than 5% of the value of the vessel
- Written approval of the VAT Commissioner must be obtained in advance.

**NOTES:**

The above is intended to provide a brief guide only. It is essential that appropriate professional advice is obtained. Totalserve Management Ltd will be glad to assist you in this respect. Please do not hesitate to contact us.