



# Andreas M. Sofocleous & Co. LLC

## Advocates & Legal Consultants

### Cyprus Leasing of Yachts Regime

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In 2012 a special VAT regime covering the lease of pleasure yachts was adopted in Cyprus, making Cyprus one of the most attractive jurisdictions for Yacht Leasing in the EU. This new regime provides one of the most advantageous regimes throughout the EU, whereby through use of the Yacht Leasing Scheme, the payment of VAT of a yacht is significantly reduced up to as low as 4.46%, according to the type and length of the yacht. The payment of the VAT within the EU will allow for the yacht to sail freely throughout the EU.

#### The VAT Treatment of Yachts

For the purposes of the new regime, the agreement for lease of a yacht is an agreement according to which the lessor (the owner of the yacht) enters into a contract with the lessee (the person who leases the yacht), for the use of the yacht for certain consideration, and whereby such an agreement may at the end of the lease term give the lessee an option to purchase the yacht, at a price being a percentage of the initial value of the yacht.

For VAT purposes, the leasing of a yacht constitutes a supply of services with a right of a VAT deduction. The supply of the leasing services constitutes a taxable transaction subject to the standard VAT rate (currently 19%) to the extent that the leased yacht is used within EU waters. An essential precondition is the lessor's place of origin, which must be a company registered under the Cyprus Companies Law, whilst the lessee may be either a legal or physical person, regardless of the place of establishment or residence.

#### Calculation of Specific Rate of Use of a Yacht within EU Waters

It is generally accepted that there are practical difficulties in calculating the exact time the yacht sails within EU territorial waters and the time that it sails outside EU waters. For this purpose, VAT regulations have predetermined the percentage of the part of the leasing attributable to the time the yacht sails within EU territorial waters. These percentages are set in accordance with the length of the yacht and whether it is a motorboat or a sailing boat.

*Tables indicating the percentages of usage within the EU*

Table A: Motor Boats

Length	%	VAT calculation
Greater than 24 meters	20%	20% of consideration x 19%
Between 14.01 and 24 meters	30%	20% of consideration x 19%
Between 8.01 and 14 meters	50%	20% of consideration x 19%
Up to 8 meters	60%	60% of consideration x 19%
Yacht that is only licensed to be used within protected waters	100%	100% of consideration x 19%

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Table B :Sailing Boats

Length	%	VAT calculation
Greater than 24 meters	20%	20% of consideration x 19%
Between 20.01 and 24 meters	30%	20% of consideration x 19%
Between 10.01 and 20 meters	50%	20% of consideration x 19%
Up to 10 meters	60%	60% of consideration x 19%

### Conditions for the Application of the VAT Regime

For the Yacht Lease VAT regime to be applied, ALL of the following conditions must be satisfied:

- The yacht lease agreement must be between a Cyprus company (as lessor) and any physical or legal person irrespective of origin (as lessee).
- The yacht must sail to Cyprus territorial waters within a month from the commencement of the lease agreement. Any extension with regards to the one month period can only be granted by the VAT Commissioner. However, it is understood that the extension cannot under any circumstances be greater than the period of time at which the right of purchase of the yacht is exercised by the lessee.
- An initial lump sum payment of at least 40% of the yacht's value must be paid by the lessee to the lessor.
- The lease payments shall be payable on a monthly basis for a lease duration that is not less than 3 months (90 days) and does not exceed the period of 48 months.
- The lessor is expected to make a profit margin from the lease agreement of not less than 8% of the total value of the yacht. At the time of the lease agreement commencement, the total amount of the lease instalments, on which VAT is calculated, is increased by half of the profit margin, i.e. 4% .

- The final payment at the end of the finance lease term, as a result of which the legal ownership essentially is transferred to the lessee, cannot be less than 4% 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 (Currently 19%).
- Prior written approval from the VAT Commissioner is required to be obtained, confirming the value of the yacht and the applicable amounts on which VAT will be imposed according to the extent of its use within EU waters. The application must be accompanied with a certificate of the value of the yacht, as well as the lease agreement entered into by the parties.

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

It should be noted that once the lessee exercises the option to acquire the yacht at the end of lease period, and furnishes the VAT Department with supporting documentation of the same (i.e. invoice and the applicable bill of sale), the Cypriot VAT Department will proceed to issue a VAT paid certificate confirming that all VAT due has been paid on the yacht.

Please do not hesitate to contact us for a consultation on the above matter. We will be happy to assist you on the full process of registration of your yacht with the VAT authorities in Cyprus.

For further information please contact Christina Sofocleous [chsofocleous@sofocleous.com.cy](mailto:chsofocleous@sofocleous.com.cy)

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