



MALTA YACHT LEASING

GUIDELINES REGARDING VAT TREATMENT OF YACHT LEASING

OCTOBER 2014

1. Yacht VAT Leasing in Malta

Malta offers yacht owners looking to buy a new boat attractive savings on VAT. This scheme is recognised by the EU (since Malta is a full EU member state) and vessels will be 'EU VAT PAID' and free to navigate in EU waters without any restrictions. Malta's shipping registry has grown extensively in the last years and lists some of the most prestigious yachts sailing today. Vassiliades and Co. Malta Limited offers Malta solutions to yachts owners including registration of commercial yachts, VAT-efficient leasing structures and temporary importation procedures.

2. The interpretation of a leasing agreement of a pleasure boat

A leasing agreement of a pleasure boat is an agreement whereby the lessor (the owner of a boat) contracts the use of the boat to the lessee (the person who leases the boat) in return for a consideration. In addition, at the end of the lease period, the lessee may opt to purchase the boat at a percentage of the original price. The final purchase is strictly an option which may be exercised at the end of the lease for a separate consideration.

3. The application of VAT to the lease agreements

For the purpose of VAT, the lease of the boat is a supply of services with the right of deduction of input VAT by the lessor, where the right of input VAT applies. This supply of services is taxable according to the use of the boat, attributed within the territorial waters of the European Union (EU), provided that the lessor is a Maltese company which is leasing the boat to any Maltese or non-Maltese person or company.

4. The calculation of the use of boat within EU territorial waters

It is very difficult to trail the movements of pleasure boat in order to determine the period that the boat spends within the territorial waters of the EU and the time it spends outside the EU. In this regard, these guidelines establish the estimated percentage portion of the lease based on the time that the boat is used within the territorial waters of the EU. These percentages are set according to the length of the boat and its means of propulsion (power or sailing). The standard rate of VAT of 18% is applied on the established percentage of the lease, deemed to be related to the use of the boat in EU territorial waters. The table below indicates the established percentage portions according to the type of boat:

| Type of Boat | % of lease taking place in the EU | Computation of VAT |
|---|-----------------------------------|------------------------------------|
| Sailing boats or motor boats over 24 metres in length | 30% | 30% of consideration x 18% = 5.4% |
| Sailing boats between 20.01 to 24 metres in length | 40% | 40% of consideration x 18% = 7.2% |
| Motor boats between 16.01 to 24 metres in length | 40% | 40% of consideration x 18% = 7.2% |
| Sailing boats between 10.01 to 20 metres in length | 50% | 50% of consideration x 18% = 9% |
| Motor boats between 12.01 to 16 metres in length | 50% | 50% of consideration x 18% = 9% |
| Sailing boats up to 10 metres in length | 60% | 60% of consideration x 18% = 10.8% |

| Type of Boat | % of lease taking place in the EU | Computation of VAT |
|--|-----------------------------------|------------------------------------|
| Motor boats between 7.51 to 12 metres in length (if registered in the commercial register) | 60% | 60% of consideration x 18% = 10.8 |
| Motor boats up to 7.5 metres in length (if registered in the commercial register) | 90% | 90% of consideration x 18% = 16.2% |
| Boat permitted to sail in protected waters only | 100% | 100% of consideration x 18% = 18% |

Example:

Sailing yacht over 24 metres in length will now be presumed to have sailed in EU waters for 30% of the time during which it was lease-purchased and therefore the VAT payable on the lease is the normal rate of VAT (18%) but only for 30% of the duration of the lease, i.e. 5.4% VAT on the value of the lease-purchase.

In order to apply these guidelines the following conditions shall apply:

- a.** The boat must come to Malta at the beginning of the lease agreement and at the end of the lease agreement.
- b.** The financial leasing agreement shall be between a Maltese company and any Maltese or foreign person or company.
- c.** Prior approval shall be sought in writing from the Commissioner of VAT who is to confirm the rate applicable according to the use in EU territorial waters (depending on the size and propulsion of the craft), as well as the acceptability of the value of the craft as declared. For this purpose a valuation certificate of the craft shall be submitted with the application for approval.
- d.** An initial contribution shall be paid by the lessee to the lessor amounting to 50% of the value of the craft.
- e.** The lease installments shall be payable every month and the lease agreement shall not be less than 12 months and shall not exceed 36 months.
- f.** The lessor shall be expected to make a profit from the leasing agreement over and above the value of the boat.
- g.** Any purchase value at the end of the lease agreement shall not be less than 1% of the original value of the craft, and this will be subject to the standard rate of VAT at 18%.
- g.** If the lessee opts to purchase the craft at the end of the lease, a VAT paid certificate will be issued to the lessee provided that all VAT due has been paid.

Income Tax Implications

The income received by the Malta Co. would be deemed to be trading income since it arises from trading activities (lease of the pleasure yacht) and would be subject to income tax at the rate of 35% in Malta. In terms of Malta tax legislation, the shareholders of the Malta Company, may, following receipt of dividends claim a refund of 6/7ths of the Malta tax suffered at company level on the dividends distributed from this income stream

FOR ANY FURTHER INFORMATION AND OR
CLARIFICATION PLEASE FEEL FREE TO CONTACT US

LEDRA HOUSE: 15 Agiou Pavlou Str., Agios Andreas 1105,
Nicosia, Cyprus
P. O. BOX: 24444, 1704 Nicosia, Cyprus

E-MAIL: Info@vasslaw.net | Mariah@vasslaw.net
TEL: +357 22 55 66 77 | **FAX:** +357 22 55 66 88



VASSILIADES & Co. (MALTA) LTD

www.vasslaw.com