

VAT Treatment of Yacht Leasing



Yachting is an ever-growing industry in Malta. In terms of guidelines issued by the Maltese VAT office, the overall VAT incidence incurred on the acquisition of a yacht can be reduced substantially depending on the size and means of propulsion of the yacht.

Introduction

Back in 2005, the VAT Department issued guidelines on the VAT treatment of the leasing of yachts by a Malta company. The guidelines set out that the VAT rate on the lease payments will be reduced by a predetermined percentage depending on the size and means of propulsion of the yacht.

Conditions for application of the Guidelines

In order to benefit from the yacht leasing guidelines a number of conditions must be satisfied, the first of which is that the owner of the yacht, i.e. the lessor, must be a company incorporated in Malta with a valid Malta VAT identification number.

The lessee may, however, be a Maltese or foreign individual or company.

In order for the guidelines to apply, the lessor and lessee must enter into a yacht leasing agreement for a period not exceeding 36 months.

The agreement must provide for the first lease instalment to amount to 50% of the value of the yacht, and the lessor must effectively make a profit on the lease contract.

The VAT Department must give its consent to a yacht lease agreement in order for the guidelines to apply.

Income Tax Implications

The lessor may take advantage of the beneficial Maltese tax system, leading to a maximum effective Malta tax incidence of 5%.

VAT Implications

Acquisition of the Yacht

The VAT treatment upon acquisition of the yacht by the Malta Company will depend on whether the yacht is acquired locally, acquired from another EU Member State, or imported into Malta from a third country. In any of these three situations, VAT due would be refundable on the basis that the yacht is being used for the economic activity of the lessor.

Place of supply: up to 31 December 2012

As the law currently stands, the lease of the yacht would be considered to be a supply of services taking place in Malta.

Place of supply: as of 1 January 2013

As from 1 January 2013, the place of supply shall be the place where the yacht is actually put at the disposal of the customer provided the lessor is established in that same place; thus, where the yacht is put at the disposal of the customer in Malta, i.e. the same place where the supplier is established, the place of supply will remain Malta.

“Effective VAT rate is reduced to as low as 5.4%”



Rationale

In view of the inherent difficulties in determining the exact period of time which the yacht spends inside and outside EU territorial waters, the yacht leasing guidelines provide that VAT will only be due on a percentage of the lease based on a presumption as to the time that a yacht is to be within EU territorial waters.

Applicable VAT rates

The yacht leasing guidelines are subject to specific conditions in order to apply. However, provided these are fulfilled, the effective VAT rates on the lease payments would be as follows:

Type of Yacht	Lease % subject to VAT	Effective VAT rate
Yachts > 24m	30%	5.4%
Sailing yachts: 20.01m - 24m	40%	7.2%
Motor yachts: 16.01m - 24m	40%	7.2%
Sailing yachts: 10.01m - 20m	50%	9.0%
Motor yachts: 12.01m - 16m	50%	9.0%
Sailing yachts < 10m	60%	10.8%
Motor yachts: 7.51m - 12m*	60%	10.8%
Motor yachts < 7.5m*	90%	16.2%

* If registered in the commercial register

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