



**K. TREPPIDES
& CO LTD**

Indirect Taxation

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Announcement

Leasing of Pleasure Yachts

We would like to bring to your attention that the Cyprus Tax Department (CTD) has issued on 22 March 2019 the Common Circular Number 4 (hereafter “the Circular”), announcing the reactivation of the pleasure yacht leasing arrangement that was previously put on hold as from 25 April 2018. The circular issued by the CTD specifies the new guidelines that should be followed by the companies active in the leasing of pleasure yachts.

VAT registration information / documentation required

Companies that will perform the activity of leasing of pleasure yachts (hereafter “the Company” or “the Lessor”), will need to apply for VAT registration to the CTD and obtain a VAT number. The following

information / documentation will need to be submitted along with the VAT registration forms (TF 2001 and TF 1101):

- Copy(ies) of the leasing contract(s) signed between the lessee and the lessor.
- Document describing in detail the procedure in place for maintaining the log book of the yacht (if this is kept manually) or if there is an electronic system in the yacht that keeps records about the actual movement of the yacht.
- Supporting documentation for the value of the yacht. If the yacht is new, then the purchase invoice of the yacht should be submitted. If the yacht is old, then a recent valuation report prepared by an approved valuer should be submitted.
- The director / authorized person of the Lessor should sign a declaration that he/she understands that the Company is registered with the CTD for VAT purposes under a probation period of 6 months and this period can be extended to 1 year. During the probation period the Commissioner of Taxation (COT) has the right to terminate the registration of the Company or amend such registration for the purposes of safeguarding of public revenues, should any additional information come to the COT's attention during that period.
- If upon submission of the VAT registration application, the Company is unable to provide adequate evidence confirming the actual place that the leasing services are used and enjoyed, the COT can determine the specific percentages taking into account the information available to him.

- The director/authorized person of the Company should sign a declaration that he/she agrees with the percentages that were determined by the COT, as well as with all of the terms of the leasing arrangement for the whole period that the Company will be VAT registered. This period should not be less than **6 years**.
- A guarantee up to a maximum of 3% of the value of the yacht should be paid.

Important conditions that should be satisfied

- The lessor should be a Cypriot legal entity whose business activity involves the leasing of pleasure yachts.
- The lessee should be a physical person which can be either resident in the Republic of Cyprus or resident outside the Republic of Cyprus and leases the specific yacht for non-business purposes.
- The yacht should be made available by the lessor to the lessee within the territory of the Republic of Cyprus.
- If under the terms of the leasing contract the ownership of the yacht can be transferred to the lessee at any point in time during the leasing period, then the COT has the right to reject the leasing agreement and treat the specific transaction as a supply of goods and not as a provision of services.
- The lessor should remain VAT registered and submit the VAT returns for a period of 6 years, irrespective if the lessor has already paid the full amount of the VAT liability arising under the leasing arrangement. If an application for VAT de-registration is submitted before the lapse of the 6 years period, then VAT output based on the value of the yacht will have to be paid.

- The percentages agreed with the COT at the time of the VAT registration will need to be reviewed and adjusted every 6 months for yachts that are more than 20 meters. The lessor will need to submit evidence (log book) confirming the actual movement of the yacht during the leasing period.
- The payment of VAT will be calculated based on the predetermined percentages agreed with the COT at the time of VAT registration. The company will not be able to claim back any VAT input on its expenses during the period that it is VAT registered.

Income Tax and other taxes

- The income of the company will be subject to income tax in accordance with the provisions of the Income tax Legislation.
- Stamp duty will have to be paid if the yacht is not registered under Cyprus flag. The calculation of the value subject to stamp duty will be based on the value of the leasing arrangement, other relevant expenses and the expected profit of the company.

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