

# VAT considerations when buying a yacht

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When purchasing a yacht, there are a vast variety of things you need to consider and sadly, how to decorate it should not be at the top of your list. So what should you be thinking about?

From a VAT perspective, there are two key areas for consideration:

1. who you are doing business with
2. whether you have got the VAT calculations right

Given standard VAT rates across the EU are often around 20%, if not higher, VAT is one of the biggest financial considerations when purchasing a yacht. I sometimes hear of owners that follow word of mouth advice, making decisions based on what other people have done. I have also encountered owners who entered into complex structures that eventually became difficult to maintain and ultimately unfit for the individual's needs.

Recommendations for a prospective yacht owner:

Take advice on the VAT and tax aspects of their purchase

The starting point is that EU VAT will be payable if the yacht is purchased or will be used in the EU. It may be possible to mitigate this or to benefit from a number of established tax reliefs that could be available to the owner. There are a range of options available to owners, such as the Malta and Cyprus leasing arrangements, that reduce the effective rate of VAT paid on the purchase of a yacht.

It is worth noting though that these arrangements can place restrictions on how the yacht will be used, for example, neither the Maltese or Cypriot lease arrangements allow the chartering of the yacht to other parties.

Consider whether you intend to charter the yacht as a way of defraying some of the costs of ownership

If the yacht will be chartered then consideration is needed as to how to operate it on a sufficiently commercial basis so as to benefit from VAT registration and the recovery of VAT on acquisition and running costs. There is often a high threshold that needs to be met in order to obtain and maintain a VAT registration so an owner needs to be aware of what is required before starting out.

Consider due diligence on potential partners

What are the source of funds received and are they legitimate? Is the partner someone that the owner is comfortable being involved with? If this were in a business context, most owners would have answers to all these questions, and more, and the same standard should be applied to the yacht purchase.

Consequently, it is important to think early on about how the yacht will be used and what the appropriate ownership structure should be for an individual's specific situation. Furthermore, that structure also needs to be effective given the owner's circumstances. What is absolutely clear is that owners do not want to risk their yacht being impounded, tax authority investigations or penalties.