



Malta Yacht Leasing – Private Yachts

Introduction

Owners who are planning to buy or build a new yacht for their personal use, looking for options other than a commercial set up, and the related consequences of commercial registration and activity, should consider this new alternative.

The Malta Yacht Leasing is a fresh and modern outlook for the leasing of yachts and superyachts. Our aim is for the operating model to provide security and clarity to owners wishing to enjoy their yachts and superyachts. The model is intended for owners who seek peace of mind and want to maximize their quality time and holidays with family and friends.

How does it work?

The new yacht lease contracts must be drawn up in Malta and the provisions thereof must follow the Malta and EU laws and practice, and decisions from the European Court of Justice in relation to operating leases. The knowledge provided by other industries such as the automobile and aviation industries provide a valid source and established practise as well.

The operating lease agreement will be one between a Maltese Company (the lessor) and the person who leases the yacht (the lessee). The lessor (Maltese company) will purchase the yacht with an intent to conduct an economic activity, being yacht leasing, and therefore has the right to deduct input VAT on the purchase of the yacht. Thereafter the lessor will enter into a lease agreement with the lessee in respect of the use.

No minimum or maximum lease period is imposed, and the parties are free to contract the terms they believe best suit their needs and business interests. We recommend an analysis beforehand, keeping in due regard the intended use of the yacht, as well as other parameters relating to the yacht itself.

VAT will be charged at the Malta rate of 18% on the lease monthly/quarterly instalments, as the case may be. There are no navigational constraints or limits on the use of the yacht.

As is the case with any business, the lessor is expected to make a profit. Therefore, the lease instalments have to be calculated accordingly to ensure the financial viability of the lessor's business activity, and ensuring that the transactions taking place are at arms' length. Income tax will be paid on the profits derived therefrom.

A welcome aspect of the new Malta model is that it provides the parties with a variety of options on exiting from the lease, and all are available without there being the need to choose only one from the outset (and our recommendation is that the parties ensure that the terms of their agreement provide for clear procedures in this respect).

A yacht lease may be terminated by the passage of time (on expiration), or by the parties according to the terms of the contract. In that case, the yacht will revert to the lessor who will be free to contract a new lease or sell the yacht. The lease may also be rolled over should the parties agree to do so. It is not unlikely and certainly possible, that the lessee will look to purchase the yacht prior to the end of lease, or upon termination especially in the case of a shorter lease.

Implementation

Phase 1 - Set up of the Company, acquisition of the yacht and setup of the lease agreements

Prior to the acquisition of the yacht the lessor company in Malta needs to be incorporated and be registered for VAT and Income Tax purposes with the Maltese Tax Authority. The lessor (Maltese company) will then enter into a lease agreement, and therefore has the right to deduct input VAT on the purchase of the yacht.

The lessor will enter into an operating lease agreement with the lessee when the yacht is in Malta.

Phase 2 - VAT payments during the lease period

VAT is due on the lease instalments at 18% (Malta rate) and monthly/quarterly VAT returns need to be submitted by the lessor company in Malta.

Main advantages

The main advantages are:

- A clear and uncomplicated model based on general principles of EU laws and recent European Court of Justice judgements;
- Peace of mind for the lessee whilst using his/her yacht and enjoying holiday with family and friends;
- Deferment of VAT due on acquisition during the lease period;
- Operating leases are well known to banks and financial institutions and therefore lending to yachts adopting such a model should be simpler;
- Various exit options without the need to choose from the outset.

The model gives owners the possibility of a cash flow saving on the acquisition and provides an attractive option for the transitional period until Malta implements new Guidelines on the treatment of VAT for use and enjoyment of yachts in and outside of the EU in the future. The option is available and not dependent on any authority, licenses or interpretation.

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