



VAT Treatment of Short-Term Yacht Chartering



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With centuries' old of maritime tradition, its geographical position in the Mediterranean, its favourable weather conditions, its straightforward registration procedures for a Flag of trust, its efficient importation procedures; for the past years Malta has experienced significant growth and investment in the yachting industry. It has been proved that the VAT Guidelines, introduced 10 years ago allowing for reduced rates of VAT on the long-term leasing of yachts has been one of the number of contributors attracting yacht owners to Malta. Such arrangement had been complemented with a similar arrangement for short-term charters allowing the overall VAT incidence on the short-term leasing of a yacht to be reduced substantially depending on the use of the yacht within EU waters. In anticipation of the charter season, herein is a description of the short-term leasing arrangement.





Introduction

By default, the chartering of pleasure yachts qualifies as a VAT taxable service. Nonetheless, the short-term chartering of yachts for leisure purposes would only be subject to Maltese VAT if the yacht is placed at the disposal of the lessee in Malta. For VAT purposes, 'short-term' covers a continuous yacht chartering period of not more than 90 days. Acknowledging the difficulties that lessors may face in determining the correct amount of VAT to be charged on the proportion of the lease attributable to the use of the yacht within the territorial waters of the EU, subject to the satisfaction of certain conditions, the VAT Department may approve that VAT be charged on a portion of the lease deemed to be made within the EU.



Conditions for application of the Guidelines

In order to be able to benefit from the VAT treatment of short-term yacht chartering, a number of conditions have to be satisfied:

- The application of the Guidelines is subject to the approval of the VAT Department on a case by case basis.
- The supplier of the yacht charter has to be a person registered for VAT purposes in Malta.
- The yacht charter contract need to include certain details including the place where the charter commences, which must be in Malta.



Applicable VAT Rates

In circumstances when it is difficult to physically trail the movements of a yacht in order to determine the exact period of time that the yacht spends within and outside the territorial waters of the EU, in terms of the Guidelines and upon justification, the Commissioner for Revenue may approve that Maltese VAT on charters commencing in Malta shall only be due on the following percentages, representing the portion of the lease deemed to take place within the EU as set out overleaf:

Yacht Type	% of charter deemed to be taking place in the EU
Sailing or motor boats over 24 metres in length	30%
Sailing boats between 20.01 and 24 metres in length	40%
Motor boats between 16.01 and 24 metres in length	40%
Sailing boats between 10.01 and 20 metres in length	50%
Motor boats between 12.01 and 16 metres in length	50%
All other boats	100%

Input VAT on expenses

Owners/operators of a yacht who charter out their yacht under the approval of the VAT Department, retain their right to claim input VAT incurred on the fuelling and provisioning of the yacht provided that the fuelling and provisioning supplies to the charterer are contracted and charged for separately to the charter itself. Input VAT recovery is also possible on fuel purchased for the outward journey of the yacht to the next port of destination after the completion of the charter.

Conclusion

The effective VAT rate on short-term chartering could be reduced to as low as 9%, 7.2% or even 5.4% on larger boats. Such rates could be highly attractive to owners/operators seeking to charter out their pleasure yacht.



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