

Key Facts

Yacht & Aircraft Leasing

Malta offers defined and clear leasing schemes that provide owners of private yachts and aircraft the opportunity to reduce their VAT liability.

Malta Yacht Finance Leasing VAT Scheme

Malta's Finance Leasing Scheme provides prospective pleasure yacht owners the opportunity to reduce their VAT liability.

Under the Finance Leasing Scheme, the leasing of a pleasure yacht by a Maltese company ('the Lessor') to a third party ('the Lessee'), whether an individual or company on 'an arm's length basis', may be subject to reduced rates of VAT, even though the yacht is used within EU waters. At the end of the term of the lease, the Lessee may buy the yacht from the Lessor.

Conditions to be met under the Finance Leasing Scheme:

- A financial leasing agreement is concluded between a Maltese company as Lessor and any Maltese or foreign person or company as Lessee;
- Prior approval of the lease agreement is given in writing from the Commissioner of VAT;
- An initial contribution amounting to at least 50% of the value of the yacht is paid by the Lessee to the Lessor;
- The lease installments are payable by the Lessee to the Lessor on a monthly basis, with the lease agreement not exceeding 36 months;

- The Lessor is expected to make a profit from the leasing agreement over and above the value of the yacht;
- The purchase value at the end of the lease agreement cannot be less than 1% of the original value of the yacht, and this will be subject to the standard rate of VAT at 18%; and
- If the Lessee opts to purchase the yacht at the end of the lease, a VAT-paid certificate will be issued to the Lessee provided that all VAT due has been paid.

VAT Rates Yachts

The leasing services provided by a Maltese Lessor are taxable according to the extent of the use of the yacht within EU waters. Since it is difficult to track the movements of a pleasure boat to determine the period that it spends within the territorial waters of the EU, this is estimated with reference to the overall length of the yacht and its means of propulsion (power or sailing). Generally, smaller/sailing craft are judged to spend more time in EU waters than larger/motorized craft.

The following table sets out the portion of the lease subject to VAT based on this method, as specified by the Maltese VAT Department.

Key Facts

Yacht & Aircraft Leasing

Type of yacht	% of lease subject to VAT	Effective rate of VAT
Over 24 metres in length	30%	5.4%
Sailing yacht/ 20.1 to 24m	40%	7.2%
Motor yacht/ 16.01 to 24m	40%	7.2%
Sailing yacht/ 10.01 to 20m	50%	9%
Motor yacht/ 12.01 to 16m	50%	9%
Sailing yacht up to 10m	60%	10.8%

Aircraft Leasing

A leasing agreement of an aircraft is an agreement whereby the lessor (the owner of the aircraft) contracts the use of the aircraft to a lessee (the person who leases the aircraft) for a consideration. In addition, after the end of the lease period, the lessee may opt to purchase the aircraft at a percentage of the original cost. The final purchase is strictly an option which may be exercised by the lessee for a separate consideration.

If the lessee opts to purchase the private aircraft from the lessor at the end of the lease, a VAT-paid certificate would be issued by the authorities, provided that all VAT on the lease charges would have been paid.

For VAT purposes, other than aircraft used by airline operators in international traffic, the lease of an aircraft is a supply of a service which is subject to VAT with the right of deduction of input VAT by the

lessor (where such right applies). This service is taxable according to the use of the aircraft attributed within the airspace of the European Union.

Since it is difficult to determine the period that the aircraft is used within the airspace of the EU and the time that it is used outside the EU, the estimated percentage portion of the lease based on the time that the aircraft is used in the airspace of the EU is calculated on the basis of an expert technical study as summarised below.

Aircraft type by Range (KM)	% of lease in the EU	Computation of VAT	Effective VAT Rate
0 - 2,999	60%	60% of consideration x 18%	10.8%
3,000 - 4,999	50%	50% of consideration x 18%	9.0%
5,000 - 6,999	40%	40% of consideration x 18%	7.2%
7,000 & over	30%	30% of consideration x 18%	5.4%

- The leasing agreement shall be between a lessor who is established in Malta and a lessee who is also established in Malta and who would not be eligible to claim input tax in respect of the lease. The lease agreement shall not exceed a period of 60 months and the lease instalments shall be payable monthly.

- Prior approval must be sought in writing from the VAT Department and each application will be considered on its own merits. Furthermore, the Director General (VAT) may impose other conditions which he may deem appropriate.

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