



## INTRODUCTION AND CURRENT ISSUES

The yacht chartering business is an important element of the maritime industry within the European Union (EU). With most of the larger yachts being used between Italian and French waters, and in the light of recent European Court of Justice cases and attempts by the EU to regularise this business, it is very important to understand the VAT implications of yacht chartering and where best to operate charters from.

## VAT TREATMENT OF SHORT-TERM LEASING

A short-term charter of a pleasure boat is an agreement whereby the yacht owner/operator contracts the use of the boat for a consideration with a crew or on a bareboat basis. The term of the charter cannot be more than 90 days. For VAT purposes, the short-term charter of a boat to be used for leisure purposes, is a supply of a service which is taxable at the standard rate of VAT.

The place of taxation is the place where the boat would actually be berthed at the disposal of the customer. Subject to certain conditions, this supply is taxed according to the use of the boat insofar as that portion of its use within the territorial waters of the EU.



## THE MALTESE APPROACH TO SHORT-TERM CHARTERING

Given the difficulty to physically trail the movements of a pleasure boat in order to determine the period that a boat spends within the territorial waters of the EU and the time it spends outside the EU, the Maltese VAT Department has issued a set of guidelines for the VAT treatment of short-term yacht chartering (the 'Short-Term Chartering guidelines'). In terms of these Short-Term Chartering guidelines, the overall VAT incurred on short-term charter of a pleasure boat (with a crew or on a bare boat basis) can be reduced substantially depending on the size and means of propulsion of the yacht. The minimum rate is established at 30% of the charter income applicable for short-term chartering of pleasure yachts of 24m in length or over. The effective rate of VAT in this case would for example be 5.4%.

## CONDITIONS AND VAT IMPLICATIONS

In order to benefit from the reduced VAT rates mentioned under the Short-Term Chartering guidelines, a set of conditions need to be satisfied, the first of which is that, in terms of the place of supply rules for services, the yacht is to be placed at the disposal of the customer in Malta.

Furthermore, the following conditions are to be satisfied:

1. the supplier of the charter shall be a person registered for VAT in Malta;
2. the charter contract shall indicate the place where the charter commences (i.e. Malta), the charter price and a statement that the boat shall sail outside EU waters; and
3. upon application, the supplier of the charter has to produce sufficient documentation to identify the yacht with regards to hull number, port of registry of the boat, registration number, and any further documentation confirming the size and type of yacht.



The VAT Department must give its consent to each short term charter in order for the Short-Term Chartering guidelines to apply.

For VAT purposes, the short-term charter of a yacht to be used for leisure purposes is a supply of service which is taxable at the standard rate of VAT in Malta of 18%. The place of taxation is the place where the yacht would actually be placed at the disposal of the customer, in this case in Malta. Subject to certain conditions as detailed above, the Short-Term Chartering Guidelines establish the estimated percentage portion of the charter based on the time that the yacht spends within the territorial waters of the EU. The established percentages are as follows:

Yacht type	% of charter deemed to take place in EU
Sailing boats or motor boats over 24 m in length	30
Sailing boats between 20.01 to 24 m in length	40
Sailing boats between 10.01 to 20 m in length	50
Motor boats between 16.01 to 24 m in length	40
Motor boats between 12.01 to 16 m in length	50
All other boats	100

The supplier of the charter would have the right to claim input tax incurred on the fuelling and provision of the boat provided that these goods would be sold to the client of the charter under a separate contract or provided that they would be invoiced separately from the charter service. The supply of these goods to the charter client would have to be made at the full standard rate of VAT.

Furthermore, the supplier of the charter would also be entitled to claim input VAT incurred on fuel purchased for the outward journey of the yacht to its next port of destination after the completion of the charter. Standard VAT rules shall apply.

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At Nexia BT we can assist in the registration of charter operators who would want to operate from Malta or have certain charters starting from Malta. We can also help with the communication with the VAT department, forwarding of necessary documents to have the charter approved and general compliance in relation to VAT return preparation and submission.

## CONTACTS

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