

January 2006

Measurements and Measures Ahead

The year 2006 has opened with the usual spate of statistics and forecasts, but hardly any of these have to do with yachting specifically. Of some interest though are the wealth indicators for 2006, which are said to be up and up. Chinese consumers will account for over 13% of the worldwide revenues of luxury goods firms this year, up 10%.



Then there are soaring Wall Street and City bonuses; the FT's growing "rich list"; MT's swelling ranks of top billionaire entrepreneurs; and Merrill Lynch and Capgemini's escalating count of households worldwide with assets of at least \$1m. But while they all indicate that affordability for luxury is quickly going mass market, these indicators do not suggest that the build up of wealth will necessarily lead to investment in, or consumption of, yachts. So amid the soothsaying for 2006, the great missing element still remains reality, which will come only as it happens. More merit therefore with respect to VAT in looking back instead at 2005, for therein abide some of the forerunners to 2006...

The Power of One

In the UK, a new era began on 18 April 2005 when HM Revenue and Customs merged. Early implications of this merger for taxpayers began to emerge in the second half of 2005 and will become abundantly clear this year. Of particular interest is the widening power of the merged department. As one, they now have the power to require the production of information concerning the supply of goods and services – a power that goes beyond any previously available to the old Inland Revenue. Also, the department now has a better capacity to share information relating to one tax that is also relevant to another tax. So VAT inspections may well be used to gather information for other taxes, such as PAYE; and turnover filed with the Revenue for corporation tax purposes that exceeds the threshold for VAT registration may well trigger a demand for VAT registration. For UK owners of yachting and other businesses, therefore, consistency of treatment will be more important than ever. Trial testing of the first joint visits to businesses happened in 2005, with officers from Revenue and Customs working in a team to look at VAT, corporation tax and PAYE all in one go. It is likely that this approach will intensify and

become the norm as from this year.

Leasing – Sauf Qui Peut!

Judging from the multifaceted attack by various authorities, leasing was given a bad name in 2005. In the UK, the tax authorities had a significant go at UK tax-based leases of yachts and other ships in an effort to stamp out what they perceive as harmful leasing arrangements. Ahead of a complete reform of the rules with effect from April 2006, the Government introduced transitional rules to cover the period from 21 July 2005 to 1 April 2006, whereby capital allowances would no longer be available to UK-based lessors for certain types of leases of ships. Instead, the allowances would be available to the lessee, who would have to "qualify". The aim was to put in place measures to flush out avoidance arrangements involving "offshore loops", among others, by rendering such arrangements more expensive for both the taxed-based lessor and lessee. This campaign will intensify in 2006, with the result that the UK leasing sector will turn more to using compliant "tonnage tax" company structures.

Meanwhile, ahead of the planned EU-wide reform of the VAT Place of Supply Rules, authorities across the EU are waging a sustained campaign against artificial lease-and-leaseback arrangements whose sole purpose is to avoid VAT. "Abuse of Rights" would become the bogey phrase of 2006; interest in VAT planning for yachts will continue to shift from "DIY schemes" to solutions based on reliable VAT schedules; and cross border leasing structures based within, rather than outside, the EU will continue to grow.

IoM Construction Register in Gestation

Currently the Isle of Man Ship Register does not accommodate Vessels Under Construction (VUC), but this is set to change in 2006. As part of a concerted effort to consolidate its position in yachting, Isle of Man Marine Administration is seeking powers to establish a register for VUC. The purpose of registering VUC is to protect purchasers' and financiers' interest in a vessel in the event that a shipyard becomes bankrupt or runs into financial difficulties during its construction. This move (and other parallel ones in "zero tax" and a new-type corporate structure) suggests that the Isle of Man is positioning itself to challenge the "offshoring" credentials of Caribbean jurisdictions with a strong "nearshoring" package in 2006.

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