

YACHTING VAT NOTE

January 2008

Previous Yachting Vat Notes
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IOM on a Wing and a Yacht

In a seven day period in October 2007, the Isle of Man Aircraft Registry set itself a record by registering five multi-million pound jets for large international companies. Two were at the Bombardier factory in Montreal, one at the Cessna factory in Wichita, one at the Dassault factory in Paris and one in Delaware. Seen against its own 2007 target of only 7 aircraft when the Registry opened on 1 May 2007 this is a phenomenal achievement. Indeed at the end of 2007 the Registry had registered a total of 32 aircraft, with many more in the offing.



The success of the Islands Aircraft Register mirrors that of its Commercial Yacht Register, which opened in 2003. But at this rate of growth, the Aircraft Register will probably overtake the latter within its first year of opening. The two Registers have obvious connections, since most owners of large yachts also own aircraft. Nearly every 65 meter plus yacht is now either being built or retro-fitted with a helicopter deck. And reference is often made to the private jet, the yacht and the helicopter featuring together on the asset shopping list of most high net worth individuals. So you would expect the statutory servicing of these assets to converge anywhere that has both an Aircraft and a Yacht Register.

But why the Isle of Man? The answer is in large part Value Added Tax (or VAT). This is a broadly based European Union (EU) consumption tax assessed on the value of goods and services that are bought and sold for use or consumption in the EU. VAT is ultimately borne by the final consumer, but it is actually collected fractionally at each stage of the production and distribution chain from taxable persons. A taxable person is essentially any individual, partnership, company or whatever which supplies goods and services in the course of business and is registered with the authorities for the purposes of the tax. The VAT due on any sale is a percentage of the sale price, but from this the taxable person is entitled to deduct all the tax already paid at the preceding stage.

The system is self-policing to a degree, although its actual working relies on the application of a tangle of rules. But beyond the necessary compliance hurdles

the system offers asset exploitation businesses the prospect of VAT deduction on any goods imported or acquired in the EU, or service supplied for the purposes of their business. For this reason, the system makes a compelling case for consuming high value assets such as aircraft and yachts within a chartering business setup, as opposed to an individual end-user. Witness for example the fact that, on the purchase of a £30 million yacht, a chartering business could save over £5 million in VAT that would otherwise be payable to the taxman.

By accident of its history the Isle of Man is unique among the British Isles in being positioned to provide this VAT recovery prospect within the EU to the yachting and aviation industries. Although an independent self-governing state with its own tax administration, the Isle of Man has in effect been in a customs union with the United Kingdom (UK) since 1765. This relationship ensured it a place as UK's auxiliary in the EU when the UK joined that body in 1973. And it gave the Islands businesses full access to the EU Single Market on its introduction in 1993, without need for any formal agreements on trade between the Island and the EU Member States. As this unique status was achieved without losing its independence in other areas of taxation, the Isle of Man is able to add EU VAT access to its standard portfolio of international business structures operated through zero-tax corporate vehicles.

Other nearby Islands which lack the EU VAT nexus, such as Jersey and Guernsey, and some major wealth management centres, such as Switzerland, Luxembourg and Monaco, are all plugging into the Isle of Man VAT link as a way of giving their clients low-tax access to the EU. This is achievable because the VAT system itself accommodates structures incorporated in other non-EU jurisdictions, as well as yachts and aircraft flagged elsewhere.

The year has opened with sanguine prospects for both yachting and aviation, giving the Isle of Man a flying start again and its Registries a collateral boost.

Moore VAT Expertise

Grant Atchison (pictured above) has joined the Moore Stephens VAT Team as Manager, bringing with him 15 years experience in VAT compliance work at the Isle of Man Customs and Excise service.

Grant is managing client VAT registration and compliance as well as providing VAT advice.

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