

Reduced VAT on Short-Term Yacht Charters

On 29 July 2013, guidelines were issued by the Malta VAT Department in respect of the Malta VAT treatment of short-term yacht charters starting in Malta. These guidelines are to a great extent based in on the interpretation which is currently applicable to long-term leases.

VAT Department Guidelines

The guidelines provide that a short-term charter of a yacht is an agreement whereby the yacht owner/operator contracts the use of the yacht, for a consideration, with a crew or on a bare boat basis for not more than 90 days.

For Malta VAT purposes, the short-term charter of a yacht to be placed at the disposal of a customer in Malta in order to be used for leisure purposes was, in the absence of the new interpretation, a supply of a service which was taxable at the standard rate of VAT of 18%. Subject to certain conditions, the VAT Department's interpretation now limits the Malta VAT chargeable on the charter to that portion of the use of the yacht within the territorial waters of the European Union (EU).

The VAT Department has acknowledged the difficulty in trailing the movements of a yacht in order to verify that period during which the yacht is used within the territorial waters of the EU and that period during which it is used outside the EU. To this end, the guidelines aim to establish the estimated percentage VAT taxable portion of the charter fees based on the time that the yacht is made use of within the territorial waters of the EU.

The standard rate of VAT of 18% is applied on the established percentage of the charter deemed to be related to the use of the yacht within EU territorial waters which are set according to the length of the yacht and its means of propulsion (power or sailing). The applicable percentage portions are as follows:

Yacht type	% of charter deemed to take place in EU	Computation of VAT
Sailing boats or motor boats over 24 metres in length	30%	30% of taxable value x 18%
Sailing boats between 20.01 to 24 metres in length	40%	40% of taxable value x 18%
Motor boats between 16.01 to 24 metres in length	40%	40% of taxable value x 18%
Sailing boats between 10.01 to 20 metres in length	50%	50% of taxable value x 18%
Motor boats between 12.01 to 16 metres in length	50%	50% of taxable value x 18%
All other boats 100%	100%	Taxable value x 18%

The new VAT treatment of short-term yacht chartering in accordance with the table above is applicable provided that the following conditions are observed:

- The yacht owner/operator of the yacht charter is registered for VAT in Malta.
- The yacht charter contract indicates the place where the charter commences (i.e. Malta), the charter price and a statement that the yacht shall sail outside EU waters. The VAT Department reserves the right to request proof of any payment in connection with the charter.
- Upon application, the yacht owner/operator produces sufficient documentation identifying the yacht with regard to registration number, hull number, port of registry and any further documentation confirming the size and type of yacht.
- Following submission of these documents, and provided that the conditions are met to the satisfaction of the VAT Director General, the applicant shall be informed in writing regarding the applicable portion of the charter fee which would be subject to VAT.
- Approval must be sought in writing from the VAT Department and each application shall be considered on its own merits.

Input Tax

The owner/operator of the charter would be able to claim input tax incurred on the fuelling and provision of the yacht, in so far as such costs are recharged to the client at the standard VAT rate of 18%. If, on the other hand, the owner / operator pays such costs on behalf of the client and merely recharges them at no mark up as is typically the case, no input tax may be claimed by the owner / operator and no VAT would be chargeable on the relative claim for reimbursement of such expenses.

Also, the supplier of the charter would, subject to the normal provisions of the law, 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.

The VAT guidelines on this topic can be accessed by [clicking here](#).

If you would like to receive additional information on this topic please contact:

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