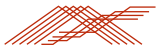




CYPRUS AIRCRAFT LEASING VAT SCHEME



APSEROU SHIAKA & CO LTD
Chartered Certified Accountants



Introduction

Following the successful implementation of the Yacht Leasing Scheme, the Cyprus VAT Department has recently introduced an Aircraft Leasing VAT Scheme.

Similar to the Yacht Leasing scheme, this new incentive refers to individuals who would like to buy a pleasure aircraft for flying within EU airspace and its aim is the reduction in the VAT rate which can be as low as 4.37% instead of 19%. This reduced effective vat rate is calculated as a percentage of the time that the aircraft is deemed to fly within EU airspace.

Interpretation of terms

According to the guidelines, aircraft leasing 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. Such a lease agreement may also give the lessee the option to purchase the aircraft at the end of the lease period for a separate and additional consideration. When such option is exercised, a VAT paid certificate will be issued provided that all the VAT due has been fully paid.

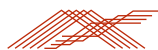
Calculating the use of the aircraft within the EU Airspace

Since it is practically impossible to establish the period that an aircraft is used within the EU's airspace, the VAT Department has determined that the percentage of the lease taking place in the EU's airspace will depend:

- upon the type of aircraft involved e.g. Piston, Turbo, Jet
- upon the maximum take-off weight

The following table determines the percentage of lease which is subject to VAT as well as the effective VAT rates for each type of aircraft:

It must be noted that, the above VAT treatment does not apply to aircrafts used by airline Operators in international traffic and in cases the lessee has the right to deduct input VAT.

**Table A: Piston Engine Aircraft**

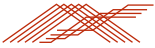
Maximum Take-Off Weight	Percentage of use within EU Air space	Effective Tax rate
Large: over 15.001kg	40%	40% of consideration X 19%
Medium: between 5.701kg and 15.000kg	60%	60% of consideration X 19%
Small: between 3.001kg and 5.700kg	80%	80% of consideration X 19%
Light: between 1kg and 3.000kg	100%	100% of consideration X 19%

Table B: Turboprop Aircraft

Maximum Take-Off Weight	Percentage of use within EU Air space	Effective Tax rate
Large: over 15.001kg	25%	25% of consideration X 19%
Medium: between 5.701kg and 15.000kg	35%	35% of consideration X 19%
Small: between 3.001kg and 5.700kg	45%	45% of consideration X 19%
Light: between 1kg and 3.000kg	55%	55% of consideration X 19%

Table C: Jet Aircraft

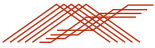
Maximum Take-Off Weight	Percentage of use within EU Air space	Effective Tax rate
Large: over 15.001kg	20%	20% of consideration X 19%
Medium: between 5.701kg and 15.000kg	30%	30% of consideration X 19%
Small: between 3.001kg and 5.700kg	40%	40% of consideration X 19%
Light: between 1kg and 3.000kg	50%	50% of consideration X 19%



Qualifying criteria

In order for the lease to benefit from this reduced VAT level, the following conditions are applicable:

- Leasing agreement shall be between a lessor and a lessee who are both established in Cyprus (i.e. Cyprus Companies); It should be noted that the following leases also qualify:
 - Leases assigned from another EU Lessor company to a Cyprus one which will be acting as the lessor for an aircraft being leased to a Cyprus lessee and leases where the Cyprus company acts as a sublessor of an aircraft being leased to a lessee established in Cyprus
 - The lessor must be registered for VAT purposes with the Cyprus VAT Department;
- The lessee would not be eligible to claim input VAT (i.e. the lessee should not use the aircraft for business purposes but for pleasure);
- The aircraft should fly in Cyprus within 2 months from the date the lease-sale agreement of the aircraft becomes effective. An extension to this deadline can only be given by the Cyprus VAT Department.
- The lessee should initially pay the lessor at least the 40% of the value of the aircraft;
- The lease agreement period should not be less than 3 months (91 days) and not more than 60 months;
- The lease agreement should result in profit for the lessor amounting at least to 5% of the aircraft's original value
- The lessor is expected to make a total profit from the leasing agreement of at least 2,5% on the initial value of the aircraft. In case an option to purchase the aircraft is granted to the lessee, the lessee should have the right to purchase the aircraft for a value of at least 2,5% of the original cost of the aircraft.



T2L Certificate

When the owner of the aircraft pays the VAT on the initial payment (40% on the value of the aircraft) the owner can import the aircraft into Cyprus and the Cyprus Customs and Excise Office will issue a T2L Certificate. In case the owner does not pay any VAT on the value of the monthly lease payments, the Cyprus Tax Authorities will assess Cypriot VAT on the total value of the lease payments.

Income tax treatment

The total profit from the leasing agreement which amounts to 5% on the initial value of the aircraft, will be subject to Income tax at the rate of 12.5%.

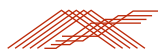
Conclusion

The VAT scheme on aircraft leasing is expected to have a positive response as it reduces the VAT liability significantly in accordance with the deemed usage of the aircraft within the European Union airspace. Coupled with the reduced corporate tax of Cyprus, the Cyprus aircraft leasing scheme aims to render Cyprus as one of the top jurisdictions for aircraft leasing.

How Apserou Shiaka & Co can help you

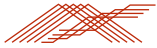
Apserou shiaka & Co Ltd can provide you with the following services:

- Incorporating and administrating of the Cyprus lessor and lessee companies which will acquire and lease the aircraft respectively;
- Arrange for the drafting the relevant lease agreement;
- Calculating of the percentage of the deemed usage of the aircraft within the EU airspace that will determine the applicable VAT saved a priori;
- Preliminary Tax advice;
- Completing and submitting of the relevant application with the VAT Authorities along with the necessary documentation;
- Completing and submitting the subsequent VAT Reporting;
- Arranging for the relevant VAT payments;
- Communicating with the VAT Department for any further requirements it may have;
- Annual Accounts and Audit.



Example

A jet aircraft with an initial value of	40.000.000 €
The aircraft has maximum take off weight of	15500 kg
Lease agreement duration of 60 months, being the maximum allowable under the vat scheme	
As at the date of commencement of the lease agreement, the lessee (CypCo) will pay 40% of the value of the aircraft and the balance will be payable over 59 months	
The purchase option value will be 2,5% of initial value	1.000.000 €
Expected profit	
Profit margin of 5% must be maintained for Corporate Income Tax purposes	2.000.000 €
The applicable rate of VAT, which is based on the engine type and the maximum take off weight, will be 20% of the vat rate of 19%	3,80%
Vat due	
Description	Amount in euro
Vat due upon payment of the 40% ($40\% \times 40.000.000 \times 3,8\%$)	608.000
Vat due upon payment of purchase of the aircraft at the end of the lease period ($1.000.000 \times 19\%$)	190.000
Vat due on all the regular monthly instalments ($60\% \times 40.000.000 \times 3,8\%$) plus on the additional 2,5% which is spread over the regular monthly instalments	950.000
Total VAT due on lease scheme	1.748.000
Effective VAT rate	4,37%



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