

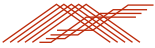


EY YACHT REGISTRATION

Cyprus the preferred location



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

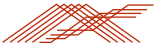
According to the guidelines, aircraft leasing is an agreement whereby the lessor, (the owner of the aircraft), contracts the use of the aircraft to a lessee, (the person who leases the aircraft), for a consideration. Such a lease agreement may also give the lessee the option to purchase the aircraft 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 and • 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.



Specific conditions for the Yacht Scheme In order for the Yacht scheme to apply all of the following conditions need to be met:

1. A lease agreement must exist between a Cyprus company and any legal or natural person, irrespective of origin.
2. The yacht should sail in Cyprus waters within one month from the commencement of the lease agreement.
3. The initial contribution from the lessee to the lessor must be at least 40% of the yacht's value.
4. Lease payments are required to be monthly and the lease period cannot exceed 48 months.
5. The lessor is expected to make a total profit from the lease agreement of at least 5% of the yacht's original value. In the year the lease agreement commences the total amount of lease payments on which VAT is calculated is increased by half of the calculated profit.
6. The lessee may purchase the yacht at the end of the lease period and the final instalment which results to the transfer of the ownership of the yacht to the lessee cannot be less than 2.5% of the yacht's value and is subject to the standard VAT rate (19%).
7. In order for the above percentages to apply a prior written approval from the VAT Commissioner is required. Thus, an application must be filed to the VAT Authorities accompanied by the lease agreement and documentation supporting the purchase price/value of the yacht.

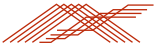


Table A: Motor Boats

Length of yacht	Percentage of use within EU waters	Effective tax rate on lease payments
Length over 65 meters	10%	10% of consideration X 19%
Length between 45,01 and 65 meters	15%	15% of consideration X 19%
Length between 24,01 and 45 meters	20%	20% of consideration X 19%
Length between 14,01 and 24 meters	30%	30% of consideration X 19%
Length between 8,01 and 14 meters	50%	50% of consideration X 19%
Length up to 8 meters	60%	60% of consideration X 19%

Table B: Sailing Boats

Length of yacht	Percentage of use within EU waters	Effective tax rate on lease payments
Length over 65 meters	10%	3,05% of consideration 19%
Length between 45,01 and 65 meters	15%	4,02% of consideration 19%
Length between 24,01 and 45 meters	20%	5,00% of consideration 19%
Length between 20,01 and 24 meters	30%	6,94% of consideration 19%
Length between 10,01 and 20 meters	50%	10,84% of consideration 19%
Length up to 8 meters	60%	12,79% of consideration 19%

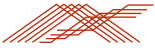


Table A: Motor Boats

The assessed value of the yacht (motor boat) is €2m and the length is 25meters.	2.000.000 €
Lease agreement duration of 48 months, being the maximum allowable under the vat scheme	
Vat payable within the Regime is approximately	87.400 €
Vat saving using the scheme	292.600 €
As at the date of commencement of the lease agreement, the lessee (CypCo) will pay 40% of the value of the yacht (40% x 2.000.000) and	800.000 €
The balance payable over 48 months	1.200.000 €
The purchase option value will be 2,5% of initial value	50.000 €

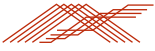
Expected profit

Profit margin of 5% must be maintained for Corporate Income Tax purposes	100.000 €
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%*2.000.000*3,8%)	30.400
Vat due upon payment of purchase of the yacht at the end of the lease period (100.000 * 19%)	9.500
Vat due on all the regular monthly instalments (60% * 2.000.000 * 3,8%) plus on the additional 2,5% which is spread over the regular monthly instalments	47.500
Total VAT due on lease scheme	87.400

Effective VAT rate **4,37%**



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