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When EasyCruise Meets Yacht Charter

Serial entrepreneur, Mr. Stelios Haji-Ioannou of EasyJet renown, is said to be about to beef up his presence in the industry. He is talking to shipyards about building a fleet of five special 500-passenger vessels. He is also looking for cheap marina places (not normal ports) to dock these vessels. And he is hiring a designer for a new colour scheme. Curious stuff for a yachting industry that is already crowded as it is. But is this all as it seems?



There are a number of good reasons for thinking that Mr Haji-Iannou's "easyworld" model could rock the yachting industry. The man has a track record of revolutionising whichever business sector he gets into – and much else around it. His 100m long passenger vessels will be competing for the same scarce resources – shipyards, crew, marina berths etc. - as large yachts. And he will be operating in roughly the same geographic and seasonal leisure markets. But there the similarities just about end.

In truth, the easyCruise model has little to do with the floating hotels that are the typical cruise liners, with their lavish salons and restaurants. Nor is it anything like the opulence and sumptuous privacy of the modern luxury yacht. These latter businesses are designed to ensure passengers spend pampered time – and money – on board the vessel. The easyCruise ship, on the other hand, is meant to offer only basic on-board accommodation at rockbottom prices to passengers. The aim is to encourage passengers to hop on and off, along the ship's chosen route, to enjoy themselves ashore whenever they want. Not surprisingly, the typical easyCruise passenger is also somewhat different – youthful, revelling and eager to party in a different port every night!

But one big difference most separates the cruise class of vessel to which easyCruise belongs and the rest of the large pleasure craft class: the "type selection" imposed under EU value added tax (VAT) rules. The generous VAT treatment of the cruise ship stems from its historical assimilation into the "merchant ship" class in most EU member states.

This means that cruise ships enjoy an automatic right to VAT exemption, with or without input tax deduction. Their only remaining exposure to VAT tends to be in the sticky area of supplies of goods effected onboard within the Community – as clarified in the recent ECJ judgment in the *Antje Köhler* case.

The large yacht on the other hand continues to be known by its dubious distinction of "pleasure craft", regardless of its commercial undertaking. That status ensures that it is docked by VAT pitfalls in its every EU transaction, ranging from purchase and use to maintenance and provisioning. This historical typecasting will change if the growth of commercial yachting continues apace. France has already led the way by admitting commercial yachts that meet specific criteria into the VAT shelter reserved long ago only for the cruise and merchant ships. But as the current snooping by the French, German and UK authorities demonstrates, this tentative step may not be easily followed through, especially if the suspicion persists that yachting is a tax evasion industry.

At any rate, when easyCruise meets yacht charter the chances are that this will be déjà vu. The luxury yacht may feel the waves, but many would hope that the conceptual distance between the two business models would be enough to make them pass quietly on their parallel ways, like two ships in the night.

Customs Warn "CoForm" Businesses

UK Customs have issued a thinly veiled warning to company formation (CoForm) businesses that are "incorrectly treating some supplies as separate zero-rated supplies of printed matter and standard-rated services." In a "Business Brief" dated 18 January 2006, they accused some Coform providers of attempting to secure a competitive advantage over others by artificially splitting what should truly count as one single company formation service.

Supplies of printed matter are generally zero-rated, while company formation services are subject to VAT. However, where there is a single advertised price for a company formation package that includes some printed matter (e.g. a number of copies of the printed and perhaps bound Memorandum & Articles of Association), there is a single VAT-able supply of company formation services. Therefore there should be no attempt to "value shift" by breaking down the package price so as to invoice the printed matter separately without charging VAT.

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