

### June 2004

#### EU Enlargement – Some VAT Points

On 1 May 2004, the EU increased in size from 15 to



25 member states. The new members are: Cyprus (Greek-controlled parts only), the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Slovakia, Slovenia and Poland.

Not all of the new entrants will be of interest to the Yachting Industry, especially the landlocked ones. So it is easy to overlook the importance of the practical, commercial adjustments that may be required of a typical yachting business. In fact, any business with international dealings will need to be aware of the ramifications.

At a basic level, supplies of yachts to, and purchases of yachts from, the above countries have ceased to be “exports” and “imports”. They have become intra-EU supplies. This means that customers’ VAT numbers are required to support the zero-rating of sales to them, and their VAT numbers need to be quoted on all sales invoices.

As to purchases, acquisition tax will become due under the destination principle. Considerable cash flow benefits may arise for purchasers, but only if they have taken appropriate steps to ensure compliance under the relevant rules.

Suppliers of charter services, especially those like “passenger transport” services where the VAT treatment is determined by where the yacht sails, need to ensure that they do not inadvertently continue to give VAT relief to charterers where it is no longer due. This will principally be the case for those charters that take place in the entrant states along the Mediterranean. An understanding of the new member states’ treatment of these charters is necessary.

Also, services whose VAT treatment differs according to the status of the customer in the EU will be affected for customers in the new member states. These include consultancy, accounting and legal services, advertising services and intermediary services of some types. The danger is that VAT

continues not to be charged to the customers when it is in fact due.

Last but not least is the non-VAT but nevertheless important issue of the flag state of a yacht. A yacht’s registration is at once its passport to roam international waters (including those of the EU) and a mark of quality and proof of adherence to international maritime laws. And like all passports “reputation” and perception can be issues for some authorities. Some of the entrant states which are still regarded as open registries or “flags of convenience” may experience an increase in yacht registration owing to EU membership. As to whether the reputation and perception of their flags will change remains to be seen.

#### Yacht Registration Quick Guides

As part of our yacht registration support service, we now have essential quick reference guides to the main international yacht registries. The guides should give an initial indication as to whether a particular vessel would be eligible for registration under a particular flag or not. Available on request.

#### VAT “Avoidance Schemes” Update

Customs and Excise have sought to specify the requirements as to tax avoidance schemes by publishing a draft, generic list of the schemes that must be registered with the relevant UK authorities. The measure was first announced in the UK Finance Bill 2004 in April (see YVN April 2004); but it will probably take effect as from 1 August 2004.

“Promoters” of such schemes will be required to provide details of the schemes to the authorities shortly after the schemes are sold to clients. The authorities will register these schemes and allocate a reference number. There will be penalties for failing to comply with the disclosure requirements.

#### Pontoons in the Water

As well as operating yachts, yacht owners are increasingly acquiring and operating pontoons too - those floating walkways at which yachts may tie up, thus giving crew access to shore. Pontoons are seen as a sure investment with a good return. But what is the VAT treatment of pontoons?

Read our article in the ‘Caveat Column’ of *The Yacht Report* Issue 60, out in July 2004.

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