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## The “Big Buy” – Yacht Owner, Yacht, VAT and All

Rather than buy the yacht, the specific VATable asset, it is sometimes preferred to buy the yacht owner, often a single purpose VAT-registered company. The company, its VAT number, the yacht and its VAT Paid Certificate are all transferred to the purchaser, who then continues the yacht chartering business.



This transfer of a business, which is effected through a transfer of the shares of the limited company to the purchaser, is outside the scope of VAT. The purchaser will not be charged VAT because, despite the change of ownership, the yacht will still belong to the limited company.

The purchaser gets a turnkey deal: a ready-made business, a VAT registration, a VAT-paid yacht, etc. And, what is more, he will acquire the right and entitlement to recover VAT on the acquisition costs and overheads, despite not having suffered VAT on the purchase of the business. So: no need to set up or wait for a separate VAT registration; no need to go into “international waters” to do the deal; perhaps no need to change broker and sign new contracts; and, for a popular yacht, a continuum of “goodwill” with an established clientele.

Any wonder then why purchasers should sometimes be so tempted by the attractive prize that they either forget or ignore the underlying detail? But a few unsavoury surprises have been known to emerge in the period following the acquisition.

For instance, the VAT registration number that the new owner retains. This comes with the obligation to retain the VAT records for periods prior to the transfer and to take on the past and potential VAT liabilities of the company. You have made the “big buy” for £10 million and the vendor has disappeared to the Caribbean. A VAT inspection of your “new” business follows soon afterwards and Customs point out to you that the previous owner had made a mess of their VAT returns and underpaid by £20,000. You are responsible for the liability!

Purchasing a yacht-owning business is a mixed blessing. Often it would make eminent sense. But sound professional advice is important, not just to ascertain and manage any VAT aspects of the purchasing process itself, but also to deal with the immediate aftermath.

## Pending VAT Number - Invoicing

If your registration number is delayed you should make use of the provisions available for invoicing while the VAT number is being processed.

You can charge VAT before you are registered but until you have a registration number you must not show VAT as a separate item on any invoice you issue. If applicable, you can change your prices to include VAT and explain to your customers that you will be sending them VAT invoices later. Once you have your registration number you should send the necessary invoices showing VAT within 30 days.

## EU Enlargement – VAT Numbers

Customs and Excise has published information about the format of VAT numbers in the accession states, including country prefixes and the number of digits appearing in the VAT numbers. If you would like advice about how EU enlargement might affect your VAT position speak to our service team.

## VAT Treatment of Boats to the Accession States before 01/5/2004

Visitors from outside the EU and UK/IOM residents, who purchase vessels in the UK for export from the EU, may have the supply zero-rated for VAT under the Sailaway Boat Scheme. Any vessel supplied under this scheme which is destined for one of the Accession States, must be presented for export from the EU before midnight on 30 April 2004. Overseas visitors and UK/IOM residents presenting boats to customs for export to any of the Accession States on or after 1 May 2004 will not be eligible for a VAT refund – instead, they will account for UK/IOM VAT at the appropriate rate.

## VAT Place of Supply of Services Rules

UK Customs have begun consultations with industry groups on the impending reform of the rules on the place of supply of services for VAT purposes, as proposed by the European Commission – see January 2004 issue of YVN for details of proposals.

*This bulletin is prepared by Moore Stephens Consulting (Isle of Man) Limited. Yachting VAT Note is designed to keep readers abreast of current developments. But it is a general guide only and is not intended to be comprehensive. No liability is accepted for the opinions it contains, or for any errors or omissions. In all cases you should seek professional advice specific to your circumstances.*

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