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TRAVEL AND HOSPITALITY

New VAT rules to hit yacht charter business in the Mediterranean

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French Riviera: St Jean Cap Ferrat and Villefranche. Image credit: Yotha

By LUXURY DAILY NEWS SERVICE

This year's Mediterranean charters will face some radical VAT changes as a result of the European Commission's action against the simplified VAT structures on short-term yacht charter adopted by countries such as Italy, France, Malta and Cyprus.

Carlo Benveduti, Italian-born yacht industry expert and chief financial officer of online luxury yacht charter platform Yotha, gives the lowdown on past legislation and what to expect next. From Monaco, in Mr. Benveduti's words:

Until the end of 2019, both Italy and France formed their own interpretation of the general principles expressed by articles 56 and 59a of the EU VAT Directive 2006/112/CE.

Even though each of them applied different criteria for defining the rates, the two most relevant yacht charter areas in the West Med have been adopting a reduced VAT lump sum taxable base on charter contracts.

While France applied a reduction of 50 percent of the taxable base of the charter contract by simply cruising into international waters, Italy adopted a more complicated approach.

According to the provisions of letter e) article 7, a quarter of DPR 633/72 short-time services, such as yacht charters, are generally considered as carried out in Italy, unless the effective use takes place outside of the EU Community (i.e. international waters).

Throughout the years, given the complexity of determining the effective area of use, the Italian Fiscal Authorities introduced lump sum presumptive criteria (circulars 76/2001 and 49/2002) based on the type and the size of the chartered boat.

So, for example, the charter contract of a motor yacht of more than 24 meters was subjected to a rate of 30 percent of the standard VAT (i.e. 6.6 percent).


Amalfi in Capri, Italy. Image credit: Shutterstock

Times have since changed.

In an effort to harmonize tax laws across Europe, the European Commission aims to abolish the VAT laws currently implemented in Italy, France, Malta and Cyprus, and instead apply the general criteria contained in articles 56 and 59a of the EU VAT Directive 2006/112/CE.

As an immediate outcome, both France and Italy have introduced national laws re-interpreting the previous VAT application.

On Jan. 29, 2020, the French Tax Authorities published an Official Tax Bulletin (BOFIP BOI-TVA-CHAMP-20-50-30-20200129) with new rules affecting charter contracts signed after March 30, 2020.

There will no longer be a lump sum reduction, but rather VAT charged at the full 20 percent rate while the yacht is sailing in EU waters, and no VAT while in international or non-EU waters.

In other words, the new rule will be time-based and no longer distance based, with the time spent in EU waters fully subject to VAT.

As it stands now, unless additional information is released, evidence of the time spent outside of EU waters should be retrieved from the data records of the automatic identification system (AIS) or any equivalent GPS-based navigation system on board.

Meanwhile in Italy, a similar approach has been introduced following law n.160/2019, enforced in December 2019, requiring that the Italian VAT rate of 22 percent be applied to all Italian charters from April 1, 2020.

One of the most significant differences to the French approach is that the new VAT regulation in Italy will be applicable to all charter contracts, even those with signature and first instalment payments dated prior to April 1.

Moreover, the new Italian guidelines for the calculation of VAT-free use that clarify whether it will refer to time or distance in international waters, will only be issued by the Italian Tax Office on Feb. 29, 2020.

How all of this will impact the Mediterranean charter market for the coming season remains to be seen.

That said, the Balearics where VAT has never been reduced, has kept its attractiveness as a charter destination despite this.


Carlo Benveduti is chief operating officer of Yotha