

From sea to sky

Shipping, yes, but Cyprus also has the potential to become a preferred jurisdiction for aircraft registrations within the EU

By Andreas Christofides

Cyprus is widely recognised as a leading forum in the international maritime industry. This global success story may sometimes overshadow the significant advantages and benefits that Cyprus offers in other sectors. Aviation is one such example.

Aviation experts will say a country's gold standard for registering aircraft, be it commercial or private, is high regulatory standards, a high level of service, a quality reputation, and an attractive simplified tax regime.

Cyprus, whose aviation industry is bursting with potential, had as of December 31, 2018 some 120 aircraft registered, according to official figures. These include 13 planes, 62 light aircraft, 28 ultralights and 15 helicopters.

To highlight Cyprus potential, Ireland, which is also one of Europe's well-known aviation forums, is used for comparison. In the detailed table (overleaf) a comparison is made in terms of the relevant legislation along with requirements and restrictions, registration fees, airworthiness fees, timeframes and other advantages.

When it comes to advantages, both Ireland and Cyprus have much in common from the corporate tax rate of 12.5% to an extensive network of double-taxation treaties and VAT exemptions in a number of areas.

Other factors that make Cyprus an attractive jurisdiction is its EU membership and the fact the island's fi-



ancial system transacts in euros. Cyprus possesses a well-trained and versatile labour force including qualified professional, technical and clerical staff with wide experience and fluency in English and other languages who are available for employment at a reasonable remuneration.

Cyprus also has experienced service providers including corporate services, auditors, tax and legal advisers. There are no thin capitalisation rules, and the administrative procedures for registering a Cyprus company are very simple. The government is totally committed to the development of the economy, infrastructure and the protection of foreign investment.

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The table overleaf highlights why Cyprus is at the very least as equally equipped as Ireland to accommodate the needs of the aviation industry.

Its favourable unique leasing scheme for private aircraft is worth exploring in depth. This involves the lease of an aircraft with a possible option to purchase at an agreed price. It essentially reduces the percentage of the cost of an aircraft used for pleasure/private purposes that is subject to VAT to reflect the proportion of its usage that takes place outside the EU.

The scheme is available for any private aircraft owned by a company registered for VAT in Cyprus that is leased to any physical or legal person established, permanently resident or ordinarily resident within the Republic and not engaged in any business activity.

It does not require detailed records to be submitted on the use of the asset. Instead it bases the percentage of the cost subject to VAT on two simple factors, namely the type of aircraft and its maximum take-off weight. Similar schemes in other EU countries are more complex and generally result in a higher overall tax cost. The percentage of the cost subject to VAT is based on the type and the maximum take-off weight, using three aircraft types and four weight bands.

In order to benefit from the scheme, the prior approval of the VAT Commissioner must be obtained.

The application for approval must be accompanied by a copy of the lease agreement, together with documentation supporting the purchase price or value of the aircraft, the requisite noise certificate, manufacturer's type certificate, Certificate of Airworthiness and Airworthiness Review Certificate.

The lease agreement must be between three months and five years. There is an initial payment to the lessor of at least 40% of the value of the

aircraft and subsequent lease payments must be payable on a monthly basis. The lessor is expected to make a profit from the monthly lease payments of at least 2.5% of the initial value of the aircraft.

If the lessee is entitled to purchase the aircraft at the end of the lease period the price must be at least 2.5% of the value of the aircraft, giving an overall profit on the leasing agreement of 5% of the value of the aircraft. The profit of the leasing company is subject to corporate income tax at 12.5%.

The aircraft must also fly to Cyprus within two months from the date of commencement of the lease agreement. The VAT Commissioner may allow an extension of this time limit under conditions. The aircraft can be registered anywhere in the world.

If any private aircraft is used solely and exclusively within Cyprus airspace, then its leasing is considered to be a taxable transaction and is taxable at the standard rate applicable in Cyprus and is calculated on the total value of the lease.

To sum up; the tax incentives combined with its strategic location, the economic and the other advantages, including the excellent infrastructure, highly skilled workforce and lower costs compared to other EU jurisdictions, render Cyprus one of the most attractive options for registering, operating and owning aircrafts as well as for cross-border aircraft leasing. ■

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