



Paradise Papers: Commission follows up on illegal tax breaks for yachts and aircraft

Brussels, 8 November 2018

The Commission today stepped up its agenda to tackle tax avoidance in the yacht and aircraft sectors by implementing infringement proceedings on tax breaks being applied in the pleasure craft industries of Italy and the Isle of Man.

These provisions can generate major distortions of competition, as highlighted by last year's *'Paradise Papers'* leaks.

In light of its subsequent investigations into these matters and contacts with the Member States concerned, the Commission decided today to send a letter of formal notice to **Italy** for not levying the correct amount of VAT on the leasing of yachts. The Commission also decided to send a reasoned opinion to Italy because of its illegal system of exemptions for fuel used to power chartered yachts in EU waters. Finally, a letter of formal notice was sent to the **UK** concerning the Isle of Man's abusive VAT practices with regard to supplies and leasing of aircraft.

Pierre **Moscovici**, Commissioner for Economic and Financial Affairs, Taxation and Customs Union, said: *"It's simply not fair that some individuals and companies can get away with not paying the correct amount of VAT on products like yachts and aircraft. Favourable tax treatment for private boats and aircraft is clearly at odds with our commonly agreed tax rules and heavily distorts competition in the maritime and aviation sectors. With this in mind, the Commission is taking action to clamp down on rules that try to circumvent EU law in these areas."*

In detail, the infringement procedures launched today concern:

- **A reduced VAT base for the lease of yachts offered in the tax law of Italy.** Current EU VAT rules allow Member States not to tax services when the effective use and enjoyment of the product is outside the EU. But the rules do not allow for a general flat-rate reduction without proof of where the service is actually used. Italy has established VAT guidelines according to which the larger the boat is, the less the lease is estimated to take place in EU waters. As a consequence, such rule greatly reduces the applicable VAT rate.
- **Excise duty rules for fuel in motor boats in Italy.** Current EU excise duty rules allow Member States not to tax fuel used by a navigation company for commercial purposes, i.e. the sale of sea navigation services. However, an exemption should only apply if the person leasing the boat sells such services to others. In breach of EU rules, Italy allows chartered pleasure crafts such as yachts to qualify as 'commercial' even when being enjoyed for personal use, which may allow them to benefit from excise duty exemption on fuel used to power its engines.
- **Abusive VAT practices in the Isle of Man.** VAT is only deductible for business use. Supplies of aircraft, including leasing services, meant expressly for private use should not be VAT-exempt. The Commission believes that the UK has not taken sufficient action against abusive VAT practices in the Isle of Man with regard to the supplies and leasing of aircraft.

The Paradise Papers revealed widespread VAT evasion in the yacht and aviation sectors, facilitated by national rules which do not comply with EU law. These infringements follow a first package of infringements launched against Cyprus, Malta and Greece on reduced VAT basis for the lease of yachts and for which the Commission received assurance from all these Member States that the legislation would be amended.

In addition to the infringement procedures launched today by the Commission, the European Parliament has recently indicated that its TAX3 committee following up on the Paradise Papers would also look at this issue. The committee is due to visit the Isle of Man in November.

Background

Italy and the UK now have two months to respond to the arguments put forward by the Commission regarding VAT on yachts and aircraft, respectively. If they do not act within those two months, the Commission may send a reasoned opinion to their authorities.

If Italy does not act within the next two months on the reasoned opinion adopted today on excise duty,

the Commission may decide to bring the case before the Court of Justice of the EU.

Since the beginning of its mandate, the Juncker Commission has been at the forefront of European and international efforts to combat tax avoidance and tax evasion. When it comes to VAT, recent Commission initiatives seek to put in place a [single EU VAT area](#) which is less prone to fraud and to enhance cooperation between Member States. The problem of VAT fraud knows no borders and can only be [solved effectively by a concerted, joint effort](#) of Member States.

For More Information

- On the key decisions in the November 2018 infringements package, see full [MEMO/18/6247](#).
- On the general infringements procedure, see [MEMO/12/12](#).
- On the [EU infringements procedure](#).

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Press contacts:

[Johannes BAHRKE](#) (+32 2 295 86 15)

[Letizia LUPINI](#) (+32 2 295 19 58)

General public inquiries: [Europe Direct](#) by phone [00 800 67 89 10 11](#) or by [email](#)