

Memorandum

Re: **Stealth (IOM) Limited**

7 January 2013

Ref: 21003

Stealth (IOM) Ltd, an Isle of Man company, intends to lease a Challenger 605 from a BVI company. The aircraft will subsequently be sub leased to TAG Aviation at Farnborough.

The Isle of Man is not a Member State of the EU, however, it forms a common area with the UK for VAT and Customs purposes.

If the aircraft is to operate freely within the EU it needs to be imported into the EU and Import VAT and Import Duty accounted for. Import VAT is normally due at 20% unless the aircraft is a 'qualifying aircraft' when VAT may be levied at 0% (zero rate). The aircraft will be imported by Stealth into the EU via the Isle of Man and it is understood the aircraft will not be a 'qualifying aircraft'.

As importer Stealth should be entitled to claim End Use Relief at the time of import so that no Import Duty is payable.

Import VAT is normally payable at the time of importation. However, by using a VAT deferment account in conjunction with the VAT offset arrangement allowed by Isle of Man Customs & Excise it is possible to structure matters such that a cash flow benefit is achieved as a physical payment of import VAT is not required. EY Isle of Man has its own VAT deferment account that we use for this purpose.

In order to be eligible to recover the VAT due on importation of the aircraft into the Isle of Man, Stealth has to be registered for VAT purposes in the Isle of Man and have an Economic Operator Registration and Identification (EORI) number.

The supply of an aircraft under a dry lease is treated as the supply of a means of transport. The basic place of supply rule for the long term (> 30 days) hire of a means of transport, Business to Business, is where the recipient/customer belongs.

The basic place of supply of the aircraft to Stealth is the Isle of Man and VAT will be accounted for by them as a reverse charge i.e. Stealth will account for output VAT and recover an equal amount of input VAT on the lease charges resulting in a nil net VAT position.

The basic place of supply of the aircraft by Stealth to TAG is the UK and VAT will be due on the lease charges. Provided the aircraft is used wholly for business purposes by TAG they should be entitled to full recovery of the VAT charged.

Further details re place of supply provided below.

Place of supply

The basic place of supply rules for the hire of a means of transport (in relation to aircraft) are as follows:

- Business to Business supplies of long-term hiring of means of transport (> 30 days) are supplied where the recipient/customer belongs.
- With effect from 1 January 2013 Business to Consumer supplies of the long-term hire of means of transport (> 30 days) are made where the recipient/customer belongs.
- Business to Business and Business to Consumer short-term hiring of means of transport are supplied where the means of transport is put at the disposal of the hiree (i.e. where the customer takes actual physical control of the means of transport).

There are also additional rules as follows:

- If you hire out a means of transport where the place of supply would be the Isle of Man/UK but the means of transport is used and enjoyed outside the EC during the hiring period, the place of supply of your services is outside the EC.
- Similarly, if you hire out a means of transport where the place of supply would be outside the EC but the means of transport is used and enjoyed in the Isle of Man/UK during the hiring period, the place of supply of your services is the Isle of Man.