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## UK Tax Change on VAT

### Could Cost U.S. Private Jet Owners Millions

Imagine a scenario where you fly your \$25 million private jet from the United States to Europe, land, and suddenly learn that you cannot leave until you pay a \$5 million tax. In the past, flying a private jet into the Europe Union (EU) was a tax breeze. You simply had to land in the United Kingdom (UK), present the required documentation, fill out certain forms, and then you would be free to fly throughout the European Union without significant EU tax concerns. However, due to a recent European Commission (EC) directive ordering the UK to remove its "tax exemption" on certain privately owned aircraft, U.S. private jets owners could be at risk for millions in European taxes.

Rather than a sales tax, EU countries impose a value added tax (VAT), which is a consumption tax levied on the value added to goods and services. Unlike a sales tax, which is assessed on each transaction between producers and final consumers, the VAT is borne only by the final purchaser. The VAT's intent is to avoid double taxation by taxing only the value added at each stage of production.

EU countries impose a VAT on a majority of goods and services bought and sold within the

EU. In most EU countries, this can include a tax on foreign aircraft that fly into their country. Aircraft registered in countries outside the EU must generally be imported (i.e. must pay the VAT) at their first EU destination. If your aircraft flies into an EU country, you must be able to prove that you paid the applicable taxes on the aircraft or risk having to pay VAT to that EU country, which can be as high as 25% of the value of the aircraft.

Some EU countries have imposed strict requirements for complying with the VAT and extreme penalties for compliance failure. In France, for example, customs officials stringently inspect importation documentation, which has resulted in prolonged detention of numerous N-registered aircraft and the imposition of hefty fines.

Fortunately for U.S. aircraft owners, the UK currently applies a zero-rate VAT for privately owned aircraft weighing over 8000kg (17,636 pounds). In the past, owners of qualifying private aircraft could fly into the UK without getting hit with a large VAT, import the aircraft into the UK, and then fly tax freely throughout the EU. However, fearful of what this free

circulation of untaxed aircraft is doing to the tax base of other EU countries, the European Commission issued a directive in June, 2009 to the UK demanding that its “exemption” be removed and VAT imposed.

Currently the UK is fighting the EC’s directive, arguing that it does not actually exempt the qualifying aircraft from VAT, but rather simply taxes them at a rate of zero percent. However, if the EC is successful in getting the UK to raise the VAT rate, U.S. aircraft flown into the EU could be at risk. One possible solution would be to lease an aircraft that has already been imported. If, however, you wish to fly your own aircraft into the EU, the UK has a temporary importation procedure that may remain in place. Aircraft that fly into the EU only

once or twice a year can import into the UK for temporary and limited purposes without paying the VAT. Notably, however, France does not allow the free circulation of aircraft temporarily imported into the UK until the owner pays France’s VAT.

If the European Commission gets its way, private U.S. aircraft owners might have a hard time avoiding paying millions of dollars in EU value added taxes. However, with some thought and careful preparation, aircraft owners should still be able to escape the VAT.

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