

Commission takes further steps to end illegal tax breaks in the Italian and Cypriot yacht industries

The Commission is today taking further steps to end illegal tax breaks in the yacht industries of Italy and Cyprus, first brought to light in the *Paradise Papers* leaks. Today's legal proceedings also form part of the Commission's ongoing efforts to stamp out unfair tax avoidance practices in the EU.

As part of today's infringement package, the Commission has decided to refer **Italy** to the Court of Justice for the EU for its failure to address an illegal system of exemptions for fuel used to power chartered yachts in EU waters. At the same time, the Commission has decided to send reasoned opinions to **Italy** and **Cyprus** for not levying the correct amount of Value Added Tax (VAT) on the leasing of yachts. Tax breaks of this type can lead to major distortions of competition.

In detail, the infringement procedures launched today concern:

- **Referral to Court: 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. An exemption can apply but only 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 if they are for personal use. This situation may allow them to benefit from excise duty exemption on fuel used to power their engines.
- **Reasoned opinions: a reduced VAT base for the lease of yachts offered in the tax law of Cyprus and Italy.** Current EU VAT rules allow tax exemptions for services when the effective use and enjoyment of the product is outside the EU. However, the rules do not allow for a general flat-rate reduction without proof of where the service is actually used. Cyprus and Italy have established VAT rules according to which the larger the boat is, the less the lease is estimated to take place in EU waters. As a consequence, the applicable VAT base can be substantially reduced. If Cyprus and Italy do not act within the next two months on these reasoned opinions, the Commission may decide to bring the cases before the Court of Justice of the EU.

Due to the size of this sector, these illegal and favourable tax regimes also run counter to the fiscal consolidation processes of these Member States.

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 would enhance cooperation between Member States. The issue of VAT fraud transcends national

borders and can only be solved effectively by a concerted, [joint effort](#) of Member States.

For More Information

- On the key decisions in the July 2019 infringements package, see a full MEMO: [INF/19/4251](#).
- On the general infringements procedures, see [MEMO/12/12](#).
- On the [EU infringement procedure](#).