



## **Submission to the Economic Affairs Scrutiny Panel – Aircraft Registry**

**On behalf of the Directors of  
Executive Jet Charter Ltd. & Elite Crewing Services Ltd.**

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### **Supporting argument for setting up an aircraft registry in Jersey**

We have been researching and lobbying for the setting up of a registry for a number of years. Captain Mc Connell first brought this issue to the attention of the then Industries Committee in 2004/5 when he advised members that the Isle of Man were proposing to set up a Register and that Jersey was missing out on potential business.

In 2010 discussions were re-ignited as one of the sticking points was the view that Jersey could not proceed with a Registry in the absence of a DCA. That role is now established. We updated our research, met with the DCA - Fergus Woods, the former Airport Director - Julian Green & Captain Mc Connell met with Customs. At that time the proposal was for a pan-Channel Island Registry which was & remains our favoured option.

The Economic Development Department tasked a member of staff to examine the potential of setting up a Registry and in January 2011 we responded to their request for comment, providing a detailed paper.

On first glance it appears that the terms of reference of this Scrutiny Review are very similar to the objectives of the work tasked to the member of staff from Economic Development. We hope that Economic Development will be giving you full cooperation and making available all the research that they have done to date.

Our main concern is that Jersey missed an opportunity in 2005, we had another opportunity in 2011 but it seems that Guernsey are stealing a march whilst we continue to consult and consult again. At some point the Minister needs to make a decision and decide to go ahead with a Registry or not. We hope that this Scrutiny Review will force this issue to the fore once more and that a definitive answer will be given.

The following quotation is taken from the Isle of Man Budget 2010. Just imagine – this is how Jersey’s budget could read. The Isle of Man now has over 500 aircraft registered.

The Isle of Man register is now in its third year and has been an internationally recognized success. To date, around 200 high-quality corporate and private aircraft have been attracted to the Island’s register. To put this in perspective, one of our major competitors, the Cayman Islands, has added 50 aircraft in the last 10 years. **The growth of the Isle of Man register has generated millions of points of new revenue for local banks, advocates, CSPs and others.** The future of the aircraft register looks extremely promising with increasing numbers of new customers from Russia and the Middle East.

Isle of Man Budget Speech 2010

Hon Allan Bell MHK, Minister for Treasury

- Research indicates that Jersey is well placed to be the registration jurisdiction of preference for aircraft owners, with Jersey being the

lead Island in a pan-CI registry (our preference) or as a unique registration jurisdiction.

- We believe there are synergies with the Jersey Shipping Registry and that many clients will be clients of both registries.

### **Benefits for the client**

- Jersey has the opportunity to set a competitively priced registration service, which also could provide related services significantly cheaper than those of most other national registers.
- Jersey has the opportunity to offer a pragmatic approach to regulation and licensing whilst maintaining the highest international standards
- A Jersey or CI registry, in particular, would provide a neutral nationality registration prefix which is a safety and discretion requirement of certain clients
- Jersey is classed as Overseas Territories under the Civil Aviation Act – which will give the Island certain advantages
- Jersey is geographically convenient for aircraft owners wishing to fly outside EU territories - in order to comply with taxation laws in their own countries
- In line with current policy, this business would be low footprint / high income
- A registry would be attractive to owners to purchase and register aircraft in Jersey and take advantage of our beneficial tax status
- Attractive to 1(1)Ks

### **Economic benefits for Jersey**

- The registry will play a part in increasing economic diversity in Jersey
- Registry will bring in;
  - An increase in financial service business
  - Aircraft insurance business
  - Brokerage

## Leasing

### Registry fees

- Employment – suitable for local candidates
- The registry is part of a package of elevating Jersey's reputation
- Jersey registered aircraft will be global ambassadors for the Jersey brand
- A registry will benefit the islands lawyers, accountants and financial institutions in involving aircraft leasing and ownership structuring benefiting from the islands clear and simple tax regime.
- The registry will need to be a well regulated service – in line with Jersey's reputation as a well regulated jurisdiction
- If CI offer a commercial registry then that will allow aircraft to charter and off-set costs
- Whilst researching this issue in early 2011, in conversation, the DCA estimated break-even at year 3 of operation – after that – potential for profit for the Government. We believe this is a very cautious approach and anticipate a minimum of fifty aircraft in the first year. We are aware of an expression of interest from a company wishing to register thirty aircraft valued at £400 million.
- We propose that a third a party would operate the registry on behalf of the DCA and would propose an administration charge per aircraft registered.

**Challenges to be met**

- The Cape Town Convention – concerning the leasing and financing liabilities of aircraft.
- Regulatory issues – DCA
- Law drafting time needs to be secured to develop an Aircraft Registry (Jersey) Act – or alternatively this needs to be sourced privately.

## **Appendix A – Further evidence from the Isle of Man – Mondaq.com**

The Isle of Man Aircraft Registry has recently celebrated a significant milestone with over 300 aircraft now registered. Despite the economic climate the Aircraft Registry has continued to exceed expectations with its growth since it was established in 2007, and now has the fastest growing offshore aircraft register in the world.

Minister for Economic Development, Allan Bell MHK, commented: "The continuing success of the register demonstrates the strength in the partnerships that exist between the team at the Aircraft Registry and those in the private sector involved in aviation. The dynamic and business-friendly approach within the sector typifies the broader advantages of the Isle of Man as an international business centre. I wish to congratulate both Brian Johnson and his team, as well as those in industry, who work so hard to deliver truly world class service to their clients."

Director of Civil Aviation, Brian Johnson, commented: "Many of the aircraft registered with us belong to some of the most successful companies in the world. We are confident that 2011 will be another successful year with a further 11 new private and corporate jets already planned for registration

## **Appendix B - Article from European Business Air News**

### **Special focus -Tax-efficient aircraft registration: European operators face taxing issues as UK changes VAT rules on goods and services**

**December 1, 2010:**

Jet owners and operators with business activities in Europe face increasingly difficult tax issues from 2011 especially where the UK is an important part of their overall market. The problems bring into stark focus the perceived attractions of buying, selling and operating aircraft from jurisdictions such as the Isle of Man and Malta.

Universal Weather & Aviation responded to industry concerns when it introduced two new services - tax minimisation and online fuel tankering analysis. It opened UVair European Fuelling Services Limited in Shannon, Ireland, to help clients calculate VAT on their European fuel purchases, headed by general manager Steve Woods.

Woods says the new operation provides a VAT compliant and exempt invoicing service. "We are working with accountancy firms to obtain advice on how our clients can qualify for exemption from these taxes and enjoy the resultant fuel price benefits," he adds. "The service was launched with a detailed examination of the tax laws of nine European countries and has been expanded from there."

The service enables charter owners and qualifying aircraft to benefit from fuel savings that could be in the region of 20 per cent. However tax issues go beyond savings on fuel and affect the large capital sums inherent in acquiring aircraft for operation in the UK. Graham Brearley, senior manager Grant Thornton UK LLP, explains: "Under the European Union VAT system, it is normally up to the supplier to decide whether his supply of goods or services is subject to VAT.

However, from the beginning of next year the liability of the supply of an aircraft will depend upon the status of the purchaser and the use to which

the aircraft will be put. That will not always be clear to the supplier, and it will therefore be necessary for the customer to provide evidence of the intended use of the aircraft by way of a 'declaration of status'."

Brearley warns. "All purchasers of aircraft will therefore need to take great care in future, as any relief from VAT which was based on an incorrect declaration could result in the imposition of a substantial financial penalty."

Under the current rules, an aircraft weighing in excess of 8,000 kilos can be purchased in the UK VAT free. However from 1 January 2011, unless the aircraft is 'of a type used by an airline operating for reward chiefly on international routes', it will no longer be entitled to gain relief from the tax.

Brearley says: "The new definition must be satisfied irrespective of the size of the aircraft and so it is more likely that private owners in the UK will have to account for VAT when an aircraft is acquired.

"However, things will get even worse for private owners because the standard rate of VAT in the UK will increase to 20 per cent just a few days after the new 'usage' rule is introduced. The rate change applies from 4 January. The combined effect of these changes means that a fairly modest jet costing £15 million will have a further £3 million added to the purchase price. Where the aircraft will not be put to any 'business use' for VAT purposes, the tax will have to be borne in full by the private owner. Even where there is some business use, the 'non business' element will still leave the owner with a significant additional cost. With such large figures at stake, the forthcoming changes are bound to have a major impact on the sector in the UK."

Brearley says that, while HM Revenue and Customs (HMRC) has published draft guidance on the application of the new rules, it is by no means clear how they will be applied to the general aviation sector. "What is clear though, is that the term 'airline operating for reward' - defined in the guidance as 'an undertaking which provides services for the carriage by air of passengers or cargo' - should apply to anyone holding an AOC. If



the AOC holder also operates chiefly on international routes, it seems that all of his aircraft will be regarded as 'qualifying' and so will be eligible for zero-rating.

"The draft guidance also confirms that the term 'operating chiefly on international routes' means that the extent of the UK operator's non domestic flights must exceed domestic flights. It is, however, left to the operator to make the apportionment by a fair and reasonable method."

Brearley continues: "Although the turnover derived from international flight operations as a proportion of total turnover from all flights will be a major indicator, other information can be taken into account when making the split. Any method that is used will, however, have to be capable of verification by HMRC."

The guidance recognises that in certain situations, aircraft are not always supplied directly to an airline. "For example, the supply chain may involve an initial transaction to a bank or other intermediary. In circumstances where an aircraft is supplied to a bank or leasing company, the supplier can 'look through' the transaction (or series of transactions) and zero-rate his supply of the aircraft. However, that is provided that it is known at the outset that the ultimate supply of the same aircraft by the bank or leasing company to the end user will also qualify for relief."

He points out that aircraft operating in the business jet sector are often owned by a private individual, or at least owned indirectly by an individual through a corporate body.

"The aircraft owner will typically enter into an operator's agreement with an AOC holder, who will in turn operate the aircraft for reward," Brearley says. "It is not clear from the draft guidance whether, in circumstances where the owner has such an agreement with an AOC holder, the supplier will be able to 'look through' his supply to the owner (in the same way that he could with a bank or leasing company).

"If the AOC holder operates chiefly on international routes such that a direct supply to it would qualify for zero-rating, it would be inconsistent to

treat the supply to an owner in a different way. It is also not clear whether an owner's private use of an aircraft should be taken into account by the AOC holder when calculating the extent of international versus domestic operations. In my view, such private use by the owner should be ignored because, according to the draft guidance and the proposed wording of the new legislation, it is only the use of the aircraft by the airline that is to be taken into account."

European owners that conduct business in the UK may be able to save millions of pounds by ensuring that their operation and acquisition of aircraft do not fall foul of tax disadvantages.