

Foreword

This notice cancels and replaces Notice 744C (December 2010). Details of any changes to the previous version can be found in paragraph 1.2 of this notice.

1. Introduction

1.1 What does this notice cover?

This notice explains the VAT liability for ships and aircraft and associated services, which are supplied in the UK.

It does not cover:

- supplies which are outside the scope of United Kingdom (UK) VAT - see paragraph 1.5
- supplies of means of transport, other than ships and aircraft; (information on this is given in Notice 741A Place of supply of services)
- supplies of new means of transport, (information on this is given in Notice 728 New Means of Transport)
- supplies of passenger transport (information on this is given in Notice 744A Passenger Transport)
- supplies of freight transport and associated services (information on this is given in Notice 744B Freight transport and associated services)
- supplies of lifeboats to charitable institutions (information on this is given in notice 701/1 Charities)

1.2 What changes have been made to this notice?

The technical content has been updated to take account of developments in policy and changes in the law since the December 2010 edition.

Paragraph 3.4 has been amended to include use of aircraft other than for transportation purposes.

Paragraph 3.5.1 is amended to include reference to "Operating Licences" when considering the status of an airline.

Paragraph 3.5.3 the definition of a UK domestic flight has been amended to include Isle of Man.

Paragraph 4.8 is amended to clarify what is meant by "Charter" within this notice.

New Section 12 on Aircraft management added and existing section 12 renumbered 13.

Paragraph 13.1.2 is amended to include reference to "Operating Licences" when considering the evidence for zero rating.

Other minor changes have been made to improve readability and clarity.

This notice and others mentioned are available on our website, go to www.hmrc.gov.uk.

1.3 Who should read this notice?

Any business which is involved in providing:

- ships or aircraft
- goods or services for ships or aircraft
- ancillary services for ships or aircraft

1.4 What law covers this notice?

Group 8 (Transport) of Schedule 8 (Zero Rate) to the VAT Act 1994.

1.5 What about services that have a place of supply outside the UK?

If these are in ...	Then you may ...
Other Member States	Have to register for VAT in those Member States and account for VAT at the relevant rate accordingly. If you do not have an establishment in those Member States, you may need to appoint a local tax representative to account for the VAT there on your behalf.
Countries outside the EU	Be liable to account for any tax in those countries that is applicable on these services.

1.6 Guidance on interpretation

The guidance in this notice is not part of the law and does not override it. It reflects only the interpretation of the law and current practice by HM Revenue & Customs.

The lists of examples are not exhaustive. If you are in any doubt about the VAT liability of your own supplies, you should contact the VAT Helpline.

2. Ships and 'qualifying ships'

2.1 What does this section cover?

This section outlines what is meant by a ship and/or 'qualifying ship' for VAT purposes. It should be read in conjunction with Section 4 which deals with the VAT liability of supplies of ships and 'qualifying ships'.

2.2 What is a ship for the purposes of this notice?

For the purposes of this notice, ship includes:

- submarines
- hovercraft
- light vessels
- fire floats
- dredgers
- barges
- lighters
- mobile floating docks or cranes, and
- off-shore oil or gas installations, used in the underwater exploration or exploitation of oil and gas resources which are designed to be moved from place to place

but excludes:

- fixed oil and gas installations (even though they might be transported to a site as a floating structure), and
- vessels which are permanently moored (for example as attractions) and not readily capable of navigation

2.3 What is a 'qualifying ship'?

A 'qualifying ship' is legally defined as any ship:

- of a gross tonnage of not less than 15 tons, and
- which is neither designed nor adapted for use for recreation or pleasure

2.4 How do I determine whether my vessel has been designed for use for recreation or pleasure?

You need to consider the nature of the vessel's design. To be a qualifying ship it must be designed for commercial purposes or to be used for permanent residential living by the owner. If your ship does not have any features that indicate a commercial design (such as a cargo hold, commercial fishing equipment, or the ability to convey large numbers of passengers) or of permanent residential living then it is not a qualifying ship.

See Section 6 for adaptations.

2.5 Can motor cruisers, powerboats or yachts be qualifying ships?

Motor cruisers, powerboats or yachts are designed or adapted for use for recreation or pleasure. They therefore cannot be considered as qualifying ships even if they are 15 gross tons or over, or supplied for business use.

2.6 What if I intend to use my craft for residential purposes?

The intended use of a vessel does not affect qualifying ship status. The only factors to be considered are the gross tonnage, the design of the ship and any subsequent adaptations. If the ship is designed or adapted to be used for recreation or pleasure (such as cruising on rivers or canals), rather than predominantly as permanent residential accommodation, it is not a qualifying ship.

The High Court decided that the supply of the vessel was entitled to zero rating under the terms of UK law where it was designed to be lived in as a permanent home by the owner and, therefore, not designed for use as recreation or pleasure - the ability to also use it for cruising or recreation not being the predominant purpose. HMRC believe the judgment does not extend to similar vessels supplied for or used as holiday or seasonal accommodation or other private or commercial activity where the purpose is recreational.

For the purpose of qualifying ship and VAT liability legislation, a residential vessel is not a houseboat (see 2.7) and the VAT treatment is that which applies to qualifying ships and not, for example, houses.

2.7 I have a houseboat that is not capable of self-propulsion, can this be treated as a qualifying ship?

Houseboats may be eligible for zero rating. You can find further information in Notice 701/20 Caravans and houseboats.

2.8 How are cruise ships treated?

Cruise ships can be considered as qualifying ships provided they meet all the conditions below:

- they have a gross tonnage of not less than 15 tons
- they are unsuitable for private use; and
- they are supplied for use in the business of providing recreation or pleasure cruises for fee-paying passengers

2.9 How is the gross tonnage of a ship calculated?

The gross tonnage of a ship is as ascertained under the Merchant Shipping Acts. If the gross tonnage of a ship has not been calculated under the Merchant Shipping Acts you should read paragraph 2.10. As soon as the tonnage of a vessel is ascertained under the Merchant Shipping Acts that tonnage becomes the basis for determination of VAT liability and the tonnage arrived at by the formula in paragraph 2.10 will no longer apply.

Hovercraft are not subject to the gross tonnage criteria and are therefore regarded as qualifying ships unless they are designed or adapted for use for recreation or pleasure.

2.10 How do I calculate the gross tonnage of unregistered ships?

Where the gross tonnage of a ship has not been calculated under the Merchant Shipping Acts it is to be determined for the **purposes of VAT only** by the following formula:

For vessels 24 metres or greater in length:

$L (m) \times B (m) \times D (m) \times 0.235$

For vessels less than 24 metres in length:

$L (m) \times B (m) \times D (m) \times 0.16$

Where:		
L	=	Length measured from foreside of the foremost fixed permanent structure to the afterside of the aftermost permanent structure. This measurement must not include appendages that do not contribute to the volume of the vessel.
B	=	Beam – breadth of vessel at widest part to the outside of outer planking. This measurement must not include the thickness of any moulding or rubbing strake which may be fitted, in way of such measurement.
D	=	<p>Depth measured vertically from the midpoint overall.</p> <p>The upper calculation point will be:</p> <ul style="list-style-type: none"> • for a decked vessel - the underside of the deck on the middle line, or (if there is no deck on the middle line) the underside of the deck at the side of the vessel • for an open decked vessel – the top of the upper strake or gunwale <p>The lower calculation point will be:</p> <ul style="list-style-type: none"> • For a wooden vessel – the upper side of the plank at the side of the keel. • For a metal vessel – the top of the plating at the side of the keelson. • For a moulded vessel (for example one made of glass-reinforced plastic) – the inside of the hull. Where no keel member is fitted and the keel is of open trough construction, the calculation point shall be the top of the keel filling, if fitted, or the level at which the inside breadth of the trough is 10 centimetres – whichever gives the greater depth.

2.11 What about calculating the gross tonnage of multi-hulls or narrowboats?

For multi-hull vessels, each hull must be measured separately for overall length, beam and depth and the vessel as a whole must be measured.

For narrowboats, the measurement must be taken from the underside of the deck at the side of the vessel, rather than from the roof of the cabin.

2.12 What if my ship has a break in the line of the deck?

A break is a raised portion of the deck that extends from one side of the ship to the other. Cabins, wheelhouses, hatches and erections above the deck are not breaks.

If the ship does have a break, the mean length, breadth and depth should be multiplied together with a factor of 0.35. This resultant figure should then be added to the gross tonnage when calculated using the formula given in paragraph 2.10.

2.13 How was this formula obtained?

This formula was agreed in principle with the relevant trade associations in order to achieve a uniformity of practice. The intention is to help businesses decide the VAT liability of the supply, repair or maintenance of unregistered craft where the liability depends on the gross tonnage only. It is based on, and is similar to, the formula used under the Merchant Shipping Acts.

2.14 Can I use another measurement instead of the gross tonnage calculation?

Other measurements such as crane-weight, displacement and dead weight are all measurements of weight and not gross tonnage. These are not measurements of the same physical properties and one cannot be substituted for the other.

3. Aircraft and 'qualifying aircraft'

3.1 What does this section cover?

This section outlines what is meant by an aircraft and/or 'qualifying aircraft' (as defined from 1 January 2011) for VAT purposes. It should be read in conjunction with Section 4 which deals with the VAT liability of supplies of aircraft and qualifying aircraft.

3.2 What is an aircraft for the purposes of this notice?

For the purposes of this notice, aircraft includes:

- aeroplanes (civil or military)
- helicopters, and
- airships

but excludes:

- space craft, and
- satellites

3.3 What is a 'qualifying aircraft'?

A 'qualifying aircraft' is legally defined as any aircraft which:

- is used by an airline operating for reward chiefly on international routes, or
- is used by a State institution and is of a weight of not less than 8,000 kg and is neither designed nor adapted for use for recreation or pleasure

The weight is its authorised maximum take-off weight. This is specified:

- for civil aircraft - in the certificate of airworthiness in force for the aircraft, and
- for military aircraft - in the released documents issued by the Ministry of Defence

If there is no certificate or release document, you should contact the VAT Helpline for advice.

3.4 Does a qualifying aircraft have to be used on international routes?

No; under the test set out in paragraph 3.3 bullet point 1 it is whether the airline itself operates chiefly on international routes and not what route any particular aircraft is used for. However, aircraft that are used wholly or partly for purposes other than for the supply of passenger or freight transportation can't be considered qualifying aircraft.

3.5 What does 'an airline operating for reward chiefly on international routes' mean?

The wording reflects the wording of EU VAT Directive 2006/112 which is not defined in EU law. For the purpose of this provision HMRC interpret it as follows.

3.5.1 What is an 'airline'?

An airline is defined in the law as 'an undertaking which provides services for the carriage by air of passengers or cargo'. The undertaking can be a sole proprietor, partnership, corporate body or any other entity, but is not necessarily confined to a single entity. A VAT or corporate group of companies may also be airlines and HMRC will consider other arrangements and business structures on a case by case basis, this treatment does not affect the normal accounting arrangements between the entities or within and by VAT groups.

An airline will need to operate at least one aircraft which it may own, lease or hire for the purpose above.

If the business does not have an Air Operators Certificate (AOC) it is an indicator that it is unlikely to be allowed to operate as an "airline" for the purposes of using Qualifying Aircraft.

3.5.2 What is 'operating for reward'?

The airline must be providing either passenger or freight transportation (or both) on scheduled or unscheduled flights (or a mixture of both) in return for a consideration for that supply. There is no need for the airline to be operating for profit, but it must be a business operation in nature.

3.5.3 What is an 'international' route?

An international route is any route that is not a domestic route within UK airspace, UK airspace boundary is normally twelve nautical miles from the coast. However, routes wholly within the VAT Fiscal territory of the UK and Isle of Man are also to be treated as UK domestic flights.

Routes between the UK to the Channel Islands and oil rigs outside the twelve mile limit are international routes.

Routes which leave UK airspace in the course of a UK domestic route are not international routes, for example, Northern Ireland to Wales crossing the Irish Republic.

3.5.4 What does 'chiefly' mean?

'Chiefly' means that the international route operations of an airline must exceed its UK domestic route operations. While turnover from the respective operations will be particularly significant, other information may also be taken into account that indicates the relative importance of the type of operations undertaken. Whatever method is adopted, the result must be fair and reasonable and capable of verification by HMRC.

However, where pertinent to a method, HMRC consider that:

- non-operational use, for example, testing flights are not counted either way

- normal positioning flights should be counted by reference to the next flight for which the aircraft is being positioned, but positioning flights as a result of an emergency diversion should be counted by reference to the original routing of the diverted flight

3.6 What are the 'rules' for testing whether the conditions in 3.5 are met?

As explained in paragraph 3.5 qualifying aircraft are those that are used by airlines that operate chiefly on international routes. It will therefore be necessary for an airline to be able to demonstrate that it meets this test in order to receive zero-rated supplies. For an airline to know whether it operates chiefly on international routes it must conduct a test of its activities from time to time. This test can be based, for example, on the value of turnover, relative number of passengers carried, miles flown and so on, as long as the method produces a fair and reasonable attribution of use to international routes compared to that attributable to domestic routes.

For many of the major passenger airlines this will be a formality but for others operating, perhaps, unscheduled services this may be more difficult to establish. In such cases HMRC will accept that the airline can base its current position on a backward look over its last financial year.

Airlines can undertake the test over a calendar year or more frequently looking back over a shorter or a rolling period if they wish but HMRC will expect the period, frequency and method of the test to be consistent and not continually altered to manipulate a particular outcome.

A forward look can also be used where the business plans/projections support it and where a backward look is not practical or representative because of material changes to the operation.

If there is a significant and material change to an airline's operation or structure such as through a merger/demerger or change of routes then the test will need to be checked as soon as practical after that change. If this establishes that the airline no longer has qualifying status then it should notify any regular suppliers that rely on a declaration (see section 13) that it no longer qualifies for zero rating.

3.7 What is a 'State institution'?

State institution includes:

- The Crown
- Central Government Departments and Agencies
- Devolved Administrations
- Local Authorities including fire and police

- The Royal Mail
- Similar bodies in other countries

In the vast majority of cases the customer will know whether they are a State institution within the above list but this list is not exhaustive and HMRC will consider claims that other emanations of the State and other bodies fulfilling State functions are State institutions.

4. The supply of ships and aircraft

4.1 What does this section cover?

This Section deals with the VAT liability of ships and aircraft. You should read this Section in conjunction with Sections 2 or 3, as the VAT liability will depend on whether or not you have a qualifying ship or aircraft.

4.2 What is meant by supply for the purposes of this notice?

Supply for the purposes of this notice includes the:

- sale, import or acquisition, and
- charter, including hire and lease

4.3 What is treated as part of a supply of a ship or aircraft?

Normal fixed and loose equipment and furnishings necessary for the operation, navigation or safety are treated as part of the supply of a ship or aircraft if supplied with it under the same contract. An initial normal complement of on-board spares is treated in the same way.

4.4 What is the VAT liability of a supply of a ship or aircraft?

The supply of a qualifying ship or aircraft may be zero-rated. Other ships or aircraft are standard-rated.

4.5 What is the VAT liability of a partially completed ship or aircraft?

The supply of a partially completed ship or aircraft is always standard-rated because you are not supplying a completed ship or aircraft. A ship or aircraft is considered 'complete' when it is sea/airworthy and fit to navigate the water/airways for which it is designed. However, supplies of part completed ships and aircraft, in the course of construction of a qualifying ship or aircraft may be zero-rated - see paragraph 7.2

4.6 What about qualifying ships or aircraft that are no longer sea or airworthy?

Provided that there is a clear intention to return the ship or aircraft to a sea or airworthy condition and that it will be a qualifying craft at the end of the process it may be considered a qualifying craft during that time.

4.7 How should aircraft leasing and similar companies be treated?

Many airlines do not own aircraft outright but lease or purchase them through banks, or other intermediaries that are in the business of aircraft leasing. The liability of the supply by these businesses will be determined by the tests set out in section 3. If at the time of the supply to the intermediary, it is known that the ultimate supply to the end user will be of a qualifying aircraft, the supplier may 'look through' the transaction (or series of transactions) and treat its own supply as zero-rated.

4.8 What does charter mean?

The term charter is sometimes used loosely. It can be used to describe:

- the lease of a ship or aircraft - that is a hire with or without captain, pilot or crew
- freight transport services, or
- passenger transport services, or
- some other service

For the purposes of this notice HMRC treat the word "charter" as meaning the hiring of a means of transportation (ship or aircraft) rather than the supply of passenger or freight transportation or some other service using a ship or aircraft (see paragraph 4.9.3).

You therefore need to look at the transaction to determine what is being supplied. In each case, the VAT liability should be determined according to the particular nature of the service supplied and not on the basis of how it is described.

4.9 What is the VAT treatment of hiring or chartering a ship or aircraft?

4.9.1 Hire of a ship or aircraft without captain, pilot or crew

This is often referred to as a bareboat or dry charter, where normally the customer takes possession and has the exclusive use of the ship or aircraft. The VAT treatment is the same whether or not there is a formal charter/hire contract in place and is treated as the supply of a means of transport.

This is zero-rated if the ship or aircraft is a qualifying one.

If the ship or aircraft is not a qualifying one, then the charter or hire of the ship or aircraft is standard-rated.

Further information on the VAT treatment of hire of means of transport is found in Notice 741A Place of supply of services.

4.9.2 Hire of a ship or aircraft with captain, pilot or crew

This is often referred to as a wet charter, charter party or time charter where normally the customer exercises direction over the operation and movement of the ship but the owner provides the crew. The VAT treatment requires there to be a formal charter/hire contract in place and is treated as the supply of a means of transport.

This is zero-rated if the ship or aircraft is a qualifying one.

If the ship or aircraft is not a qualifying one the supply cannot be zero-rated. Nor can the supply of services under a charter consisting wholly of any one or more of the following:

- transport of passengers
- accommodation
- entertainment, or
- education

wholly performed in the United Kingdom.

Alternative treatments are covered in paragraph 4.9.3 below.

Further information on the VAT treatment of hire of means of transport is found in Notice 741A Place of supply of services.

4.9.3 Treatment when not a hire of a ship or aircraft

This applies to supplies of ships or aircraft with a crew that are not to be treated as a charter or hire. If the arrangement falls short of a formal charter or hire, then the supply is not of a means of transport, but may be treated as a supply of freight or passenger transportation or other relevant supply. The parties to a charter with crew may also opt for the supply to be treated as a supply of transportation or other relevant supply if they fulfil the necessary criteria for that supply.

See also:

- passenger transport (further information on the VAT liability of this is found in Notice 744A Passenger Transport), or
- freight transport (further information on the VAT liability of this is found in Notice 744B Freight transport and associated services), or
- accommodation (further information on the VAT liability of this is found in Notice 709/3 Hotels and holiday accommodation), or
- entertainment (further information on the VAT liability of this is found in Notice 741A Place of supply of services), or
- education (further information on the VAT liability of this is found in Notice 701/30 Education and vocational training)

4.10 What if I only supply part of the cargo space or seating capacity in any ship or aircraft?

If you supply, under charter, part of the cargo space or seating capacity in any ship or aircraft, it may also be the supply of a qualifying craft. However, you may also consider whether or not your supply can be zero-rated as a supply of passenger or freight transport. You can find further information in Notice 744A Passenger transport and Notice 744B Freight transport and associated services.

4.11 How should I treat the supply of vessels adapted for disabled people?

Vessels that are designed or substantially and permanently adapted for the use of disabled people may be zero-rated in certain circumstances. You can find further information in Notice 701/7 Reliefs for people with disabilities.

4.12 What if I am a sub-contractor?

If you are providing services as a sub-contractor to a shipbuilder or aircraft manufacturer who is constructing a new ship or aircraft, your supply of services will be standard-rated. This is because you, as sub-contractor, will not be making a supply of a qualifying ship or aircraft. However, if your services are supplied in respect of the modification or conversion of a qualifying ship or aircraft then your services will be zero-rated subject to the normal conditions for such supplies. For the avoidance of doubt, you are advised to obtain evidence of your customer's entitlement to zero rating - see section 13.

4.13 Evidence that a supply is of a qualifying ship or aircraft

Normally the responsibility for determining the liability of a supply rests with the supplier. HMRC recognise, particularly in the case of aircraft, that this requires knowledge about the status of the customer and the use to which the craft is to be put. Section 13 of this notice details some of the steps that can be taken to obtain evidence for your records.

5. Supplies to sea rescue charities

Notice 701/1 Charities covers this area in more detail.

6. Repair, maintenance, modification and conversion of ships, aircraft and their parts

6.1 What does this section cover?

This section deals with the VAT treatment of the repair, maintenance, modification and conversion of ships, aircraft and their parts. It should be read in conjunction with Sections 2 and 3.

6.2 What is meant by maintenance?

Maintenance services may include:

- testing of parts and components
- cleaning
- fumigation, and
- ship's laundry (providing the articles are not personal to the crew or passengers)

6.3 What is meant by modification or conversion?

This includes, for example:

- rebuilding or lengthening
- structural alterations

6.4 What is the VAT liability of the repair, maintenance, modification and conversion of ships, aircraft and their parts?

Description of service	VAT liability
The repair or maintenance of a qualifying ship or aircraft	<ul style="list-style-type: none"> • Zero-rated if certain conditions are met - see paragraphs 6.5 and 6.6. • Standard-rated if the conditions are not met.
The modification or conversion of a qualifying ship provided that when so modified or converted it will remain a qualifying ship	Zero-rated
The modification or conversion of any ship provided that when so modified or converted it will be a non-qualifying ship	Standard-rated
Modification or conversion of non-qualifying ships	The modification or conversion of a non-qualifying ship is not zero-rated even if the modification or conversion results in a qualifying ship.
The modification or conversion of a qualifying aircraft	Zero-rated
The modification or conversion in direct connection with preparing an aircraft to be a qualifying aircraft	Zero-rated
The modification or conversion of an aircraft otherwise	Standard-rated

6.5 Repair and maintenance of parts and equipment for ships

You may zero rate the repair and maintenance of parts or equipment of a qualifying ship provided the following conditions are met:

- the repair is carried out on board, or
- the part or equipment is removed for repair, and is replaced in the same ship afterwards

You may also zero rate the parts, components or materials that you provide to carry out the repair or maintenance work provided they are regarded as part of the supply.

6.6 Repair and maintenance of parts and equipment for aircraft

You may zero rate the repair and maintenance of parts or equipment of a qualifying aircraft provided the following conditions are met:

- the repair is carried out on board, or
- the part or equipment is removed for repair, and is replaced in the same aircraft afterwards, or
- following repair or maintenance, the parts or equipment are returned to be held in stock for the future use as spares in qualifying aircraft, or
- if they are unserviceable parts or equipment, they are exchanged for identical parts which have themselves been reconditioned, repaired or maintained

You may also zero rate the parts, components or materials that you provide to carry out the repair or maintenance work provided they are regarded as part of the supply.

6.7 What if I am a sub-contractor or intermediary in a supply chain?

Services provided by a sub-contractor in relation to the repair, maintenance, modification or conversion of a qualifying ship or aircraft are zero-rated, subject to the conditions laid out in this section. For the avoidance of doubt, you are advised to obtain evidence of your customer's entitlement to zero rating - see section 13.

7. Parts and equipment for qualifying ships and aircraft

7.1 What does this section cover?

This Section deals with the VAT treatment of parts and equipment for qualifying ships and aircraft. It should be read in conjunction with Sections 2 and 3

7.2 What are the conditions for zero rating?

To qualify for zero rating, **both** of the following conditions must be met. The parts and equipment must be:

- of a kind ordinarily installed or incorporated in the propulsion, navigation or communications systems, or the general structure of a qualifying ship or aircraft; **and**
- for the incorporation or installation in a qualifying ship or aircraft

Parts and equipment can include part-assembled ships or aircraft, for example the fuselage, wings or hull.

You may zero rate supplies of parts in a supply chain, provided that at the time of supply the part is destined for a qualifying ship or aircraft. For the avoidance of doubt, you are advised to obtain evidence of your customer's entitlement to zero rating - see section 13.

7.3 Supplies to Government Departments and the Scottish Administration

Supplies of parts and equipment to Government Departments or the Scottish Administration may be zero-rated only where the parts and equipment are installed or incorporated:

- in the course or furtherance of a business carried on by that Government Department or the Scottish Administration, or
- in qualifying ships or aircraft used for providing rescue or assistance at sea

The reference to 'Government Department' includes those of foreign Governments, although other zero rating reliefs may also be available. The term 'Government Department' is not to be confused with 'State institution' in paragraph 3.7, which covers a wider range of organisations.

7.4 Which parts and equipment qualify for zero rating?

The following are examples of parts and equipment which may be zero-rated, provided they meet the conditions set out in paragraph 7.2. This list is not exhaustive, but before zero rating any other parts you should consult the VAT Helpline.

- anchors
- catering equipment (industrial)
- cranes
- fishing nets and equipment
- laundering equipment (industrial)
- lifeboats (and equipment used therein) and life rafts
- propellers and rudders
- pumps
- radar and navigation equipment
- safety equipment such as escape chutes; life jackets, smoke hoods, oxygen masks, and winches
- nuts, bolts, hoses, oil seals and rivets (referred to as 'consumables' by the aircraft industry)
- 'expendable' parts and 'rotatable' components used by the aircraft industry
- communications equipment used for the operation of the ship or aircraft, and
- sanitary fixtures

7.5 Which parts and equipment are excluded from zero rating?

Any raw or bulk materials, partly processed parts or equipment and also non-specialist goods or appliances are excluded from zero rating. The list below gives examples of other parts and equipment which are not zero-rated. It is not exhaustive.

- binoculars
- catering equipment (domestic)

- crockery
- cutlery
- diving equipment
- furniture (unfixed)
- laundering equipment (domestic)
- missiles, shells etc
- ship's stores
- soft furnishings
- phones
- televisions
- tools
- underwater cameras
- videotapes/disks, electronic games and similar entertainment equipment
- crockery and cutlery
- raw materials such as: fibre board, plastics, and specialist metals
- bulk materials such as: adhesives, chemicals, fabrics, inhibitors, metals, oils, paints, solvents and thinners etc
- aircraft ground equipment
- flight simulators or their parts, and
- tooling and equipment used for manufacturing parts or equipment

7.6 What evidence do I need to qualify for the zero rating of a supply of parts or equipment?

You should retain commercial documentation as evidence that the goods are eligible for relief. There is no need to obtain further documentary evidence of use from your customer providing you are satisfied that the parts and equipment are eligible for relief.

7.7 What if I am unsure of the use to which the parts or equipment are to be put?

If you are unsure of the use to which the parts or equipment are to be put, for example, if you are supplying a part capable of use on both qualifying and non-qualifying ships or aircraft, or if your customer is a Government department, you are advised to obtain confirmation from your customer to ensure that the parts or equipment qualify for zero rating. For the avoidance of doubt, you are advised to obtain evidence of your customer's entitlement to zero rating - see section 13.

7.8 How should I treat cases where the customer is unable to give an undertaking?

In cases where the customer is unable or unwilling to give an undertaking, you should charge VAT at the standard rate.

8. Handling of ships and aircraft

8.1 When are handling services zero-rated?

Handling services are zero-rated when provided for qualifying ships and aircraft and the services are performed:

- in a port or customs and excise airport, or
- outside the UK

Note: the letting on hire of goods alone is not zero-rated under these conditions.

8.2 What if I provide handling services for non-qualifying ships or aircraft?

Handling services provided in the UK for non-qualifying ships and aircraft are standard-rated.

8.3 What will be typical examples of zero-rated handling services?

The following are examples of charges raised or handling services provided in respect of supplies that are zero-rated. There may be circumstances when some of the charges listed below do not represent the consideration for a supply and are outside the scope of VAT. In cases of doubt, check with the VAT Helpline.

Examples of handling services for	Examples of handling services for
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ships	aircraft
<ul style="list-style-type: none"> • port and harbour dues • dock and berth charges • conservancy charges (including provision of local lights, buoys and beacons) • graving (or dry) dock charges • mooring charges 	<ul style="list-style-type: none"> • landing, parking or housing fees • compass swinging fees • apron services • airport navigation service charges • security and fire services, or • supply of crew members
<ul style="list-style-type: none"> • demurrage (where there is a charge for failing to load or discharge a ship within specified time) • security and fire services • supply of crew members, or • the day-to-day management of a ship (see Section 11) 	

8.4 What is the meaning of 'port' and 'customs and excise airport'?

'Port' means any port appointed for customs purposes and this includes all seaports, coastline and territorial waters (normally 12 nautical miles from the coast) around the UK. The definition does not extend beyond the water of the port onto land adjacent to a port, for example the quay or dockside area nor does it generally extend into non-tidal waters; the main exception being the Manchester Ship canal which is a port.

'Customs and excise airport' means an airport designated for the landing or departure of aircraft for the purposes of the Customs and Excise Acts by an order. A list of customs and excise airports can be found in Notice 744B Freight transport and associated services.

9. Air navigation, pilotage, salvage, towage and surveying services

9.1 What does 'air navigation services' mean?

'Air navigation services' has the same meaning as in section 105(1) of the Civil Aviation Act 1982 and includes the provision of information and directions furnished, issued or provided with the navigation or movement of aircraft for flights to, from and within the UK.

9.2 What is the VAT liability of air navigation services?

Air navigation services supplied in respect of qualifying aircraft are zero-rated. Services provided for non-qualifying aircraft are normally standard-rated.

9.3 How should pilotage services be treated for VAT purposes?

You should zero rate pilotage services to all shipping and not just pilotage services confined to qualifying ships. Pilotage in this context refers to shipping and not aircraft piloting.

9.4 How should I treat salvage and towage services?

You should zero rate salvage operations and towage services for all shipping (not just qualifying ships). It does not include any subsequent repair work carried out. Shipping in this context includes inland waterway vessels and all floating objects. This also covers dock gates, pier and bridge sections, and buoys.

9.5 What is the VAT treatment of surveying or classification services for ships and aircraft?

Services provided for the surveying or classification of qualifying ships and qualifying aircraft are normally zero-rated. However, some supplies are excluded (see paragraph 9.6). Surveys in respect of other ships and aircraft are standard-rated.

Such services include classification services performed for Lloyds and other registers, and survey services provided for aircraft in relation to certificate of airworthiness. Zero rating only applies if a physical inspection of the ship or aircraft is involved.

9.6 What types of surveying services are excluded from zero rating?

The following surveying services are excluded from zero rating:

- tonnage measurements or surveys of ships for registration or other purposes required by statute to be carried out by Department of Transport surveyors or other surveyors directly appointed by that Department to do the work under statutory authority: these services are outside the scope of VAT, or

- services of arranging for the registering or re-registering of ships for the purpose of the Merchant Shipping Acts, which are standard-rated

10. Intermediary services

10.1 How do I determine the liability of the services of intermediaries?

The liability of intermediary services depends on the place of supply. There are different place of supply rules depending on the type of supply you are arranging. The guidance in this section only refers to supplies made in the UK.

Further information on the place of supply is provided in Notice 741A Place of supply of services.

10.2 What is the VAT treatment of agents making arrangements for the supply of, or space in, a ship or aircraft?

If you make arrangements for the supply of, or space in, a qualifying ship or aircraft, your supply is zero-rated.

10.3 What if I arrange for the supply of a non-qualifying ship or aircraft?

If you make arrangements for the supply of a non-qualifying ship or aircraft, your supply is zero-rated only when:

- You arrange for the ship or aircraft to be exported to a place outside the EU. You can find further information in Notice 741A Place of Supply of Services.

10.4 What if I arrange for the supply of parts and equipment for ships and aircraft?

You may zero rate the making of arrangements for the supply of parts and equipment for ships or aircraft provided:

- the parts and equipment are themselves zero-rated for qualifying ships or aircraft (see Section 7), or

- you arrange for the parts or equipment for qualifying and non-qualifying ships and aircraft to be exported to a place outside the EU. You can find further information in Notice 741A Place of Supply of services

10.5 What other agency services may be zero-rated?

If you make arrangements for any supply under the provisions of Sections 7, 8, 9 and 11 which are in themselves zero-rated, then your supply is also zero-rated.

11. Ship managers and port agents

11.1 What sort of services does a ship manager provide?

A ship's manager normally provides a number of services for the owner or operator. Some will be provided separately and some will be provided together as a single supply under a ship management agreement. The place of supply of the service and VAT liability will be determined by the essence of the overall supply. These services will often include:

- the supervision of the maintenance, survey and repair of a ship
- engagement and provision of crews
- receiving on behalf of the owner all hire and freight monies
- arrangements for loading and discharging
- providing for victualling and storing of ships
- negotiating bunker fuel and lubricating oil contracts
- payment on behalf of the owner of all expenses incurred in provision of services or in relation to the efficient management of ships
- the entry of a ship in a protection or indemnity association
- dealing with insurance average, salvage and other claims, or
- arranging of insurance in connection with a ship

Where provided together under a single management agreement and the place of supply is the UK, the management service will normally be zero-rated for qualifying ships.

11.2 How should ancillary services provided by a ships' manager be treated?

Ancillary services provided by a ships' manager for which a specific fee is charged are treated as follows:

- **Seeking and negotiating employment for ships**
This follows the liability of the shipping service being negotiated.
- **Provision of crews**
The supply of a crew for a qualifying ship is zero-rated. This includes the supply of maintaining a sufficient reserve of crew. A charge is often raised for such a supply when a proportion of pooled management costs are attributed to a ship.
- **Advising the owner and consulting the shipbuilder about design and specification of a new ship**
A supply of these services is normally standard-rated but if you have a customer outside the UK you should refer to Notice 741A Place of supply of services.
- **Advertising, sales promotion and public relations work in respect of ships**
A supply of these services is normally standard-rated but if you have a customer outside the UK you should refer to Notice 741A Place of supply of services.

11.3 How should I treat the composite fee I charge for my services as a port agent?

If you provide services as a port agent, which are related to the field of activities in and around a port, you will normally charge a composite fee to cover all the arrangements you make. Such fees may be zero-rated where your service directly relates to:

- The handling of ships in a port or outside the UK, or
- The handling in a port or on land adjacent to a port, or in a transit shed of goods carried in a ship. You can find further information in Notice 744B Freight transport and associated services.

11.4 How should I treat separate supplies?

You must look at the separate supplies individually to determine their treatment. Before deciding liability, you will first need to consider:

- what is being supplied

- whether you are supplying it as an intermediary or a principal, and
- the place of supply

You can find further information in Notice 741A Place of supply of services and the other relevant VAT notices.

12. Aircraft management

12.1 What sort of services does an aircraft manager provide?

An aircraft manager normally provides a number of services for the owner or operator. Some will be provided separately and some will be provided together as a single supply under an aircraft management agreement. In the majority of cases the managed aircraft will be a corporate jet belonging to a company for the use of its staff or a private owner.

The place of supply of the service and VAT liability will be determined by the essence of the overall supply. These services will often include:

- advising and arranging the purchase of the aircraft
- the supervision of the maintenance, survey and repair of a aircraft
- provision of hangerage
- engagement and provision of crews
- providing for victualling and fuelling
- payment on behalf of the owner of all expenses incurred in provision of services or in relation to the efficient management of aircraft
- the entry on the manager's Air Operators Certificate (AOC)
- arranging of insurance in connection with an aircraft

12.2 Can an aircraft manager be an airline?

Generally, the management and flying of an aircraft for the owner is not a supply of transportation to the owner and the manager is not an airline acting as such.

Management companies who own lease or hire aircraft can make supplies of transportation as principle so can be airlines for that activity.

Management arrangements often permit the manager to use the managed aircraft to make supplies of transportation, as principle, when the aircraft is not required by the owner. While such use may allow the manager to be an airline it will not normally allow an aircraft to become "qualifying". This is because aircraft that are used wholly or partly for purposes other than for the supply of passenger or freight transportation can't be considered qualifying aircraft.

13. Evidence of 'qualifying' ship or aircraft

13.1 Supply of ships and aircraft

This section covers the supply of ships and aircraft, and of services and parts to maintain them. For details of the supplies, see sections 2, 3, 4, 6, 7, 8 and 9.

It is the responsibility of the supplier to ensure that the conditions for zero rating are met for each supply made. HMRC recommends that some form of documentary evidence is retained by the supplier. This can either consist of normal commercial documentation such as contracts or work orders or a declaration made by the purchaser. HMRC does not prescribe the format of such declarations but some suggested formats are set out in 13.2 and 13.3 below. The declaration may form part of the supplier's standard commercial documentation (such as on the order form) or may be a stand alone document.

13.1.1 Ships

In many cases it will be self-evident to the supplier that the vessel fulfils the conditions to be 'qualifying'. However, in cases of doubt, or in the case of a vessel to be used as the permanent residence of the owner, some form of evidence of entitlement to zero rating should be retained by the supplier.

13.1.2 Aircraft

Whether an aircraft being supplied is 'qualifying' depends on the status and activities of the end user. In many cases (such as a major international airline or State institution) there will be no doubt that the end user qualifies. However, in cases of doubt, some form of evidence of entitlement to zero rating should be retained by the supplier. If the end user does not have an "Operating Licence" (paragraph 3.5.1) then evidence of how it is functioning as an "airline" should be requested.

13.1.3 Sub-contractors

If you are a sub-contractor (see sections 4.12, 6.7 and 7.2) you should retain some form of evidence that your supplies qualify for zero rating.

13.1.4 How often do I have to obtain a declaration from my customers?

As explained in paragraphs 13.1.1 and 13.1.2 it is not essential to obtain a declaration in respect of each supply that you make. In many cases it will be apparent that the ship or aircraft is 'qualifying'. However, it may be the case that the supplier is in doubt as to whether zero rating applies and wishes to obtain a declaration from the customer (for example doing business with a new customer for the first time).

In the case of supplies in respect of qualifying ships HMRC would only expect one declaration to be obtained in respect of a particular vessel or, in the case of a business customer that only operates qualifying ships, one declaration to cover all of the vessels operated by that business.

In the case of qualifying aircraft HMRC would only expect one declaration to be obtained from each airline (see section 3) to cover all of its aircraft. In the case of supplies made to State institutions it will be necessary to ensure that each aircraft qualifies as not less than 8,000 kg.

For contracts with long-standing customers HMRC would advise that any declaration is sought or renewed annually or earlier if you have reasonable cause to believe that the status of a qualifying ship has changed or that an airline has ceased to operate chiefly on international routes.

13.2 Suggested format of the declaration of status of a ship or aircraft

We confirm that the [*ship/aircraft] being supplied is a qualifying [*ship/aircraft] within the meaning of the VAT Act 1994, Schedule 8, Group 8 and the conditions set out in HMRC's Notice 744C are fulfilled.

[Details of Ship or Aircraft]

We undertake to advise you immediately should this change before the time of supply and to pay you the VAT properly due.

NOTES

1. *- delete which is **not** applicable.
2. The customer's name, address and VAT registration number (where appropriate) should be quoted on all declarations.

13.3 Suggested format of the undertaking of use of parts

(referred to in paragraph 7.7)

We confirm that all the parts and equipment:

- we order, or
- in this purchase order, or
- marked with an * in this purchase order

are of a kind ordinarily installed or incorporated in, and are to be installed or incorporated in, the propulsion, navigation or communications systems or the general structure of:

- a qualifying ship as set out in Notice 744C, or*
- a qualifying aircraft as set out in Notice 744C ;* and

(where the customer is a Government department)

the parts and equipment are to be installed or incorporated in:

- the course of a supply treated as being in the course or furtherance of a business carried on by the department, or*
- ships or aircraft used for the purpose of providing rescue or assistance at sea*

We undertake to advise you immediately should these parts be used for any other purpose and to pay you the VAT due.

NOTES

1. *- delete which is **not** applicable.
2. The customer's name, address and VAT registration number should be quoted on all undertakings.

Your rights and obligations

Your Charter explains what you can expect from us and what we can expect from you. For more information go to [Your Charter](#).

Do you have any comments or suggestions?

If you have any comments or suggestions to make about this notice, please write to:

HM Revenue & Customs
VAT Supply Team
100 Parliament Street
London
SW1A 2BQ

Please note this address is not for general enquiries.

For your general enquiries please phone our Helpline Tel 0845 010 9000.

Putting things right

If you are not satisfied with our service, please let the person dealing with your affairs know what is wrong. We will work as quickly as possible to put things right and settle your complaint. If you are still unhappy, ask for your complaint to be referred to the Complaints Manager.

For more information about our complaints procedures go to www.hmrc.gov.uk and under quick links select Complaints.

How we use your information

HM Revenue & Customs is a Data Controller under the Data Protection Act 1998. We hold information for the purposes specified in our notification to the Information Commissioner, including the assessment and collection of tax and duties, the payment of benefits and the prevention and detection of crime, and may use this information for any of them.

We may get information about you from others, or we may give information to them. If we do, it will only be as the law permits to:

- check the accuracy of information
- prevent or detect crime
- protect public funds.

We may check information we receive about you with what is already in our records. This can include information provided by you, as well as by others, such as other government departments or agencies and overseas tax and customs authorities. We will not give information to anyone outside HM Revenue & Customs unless the law permits us to do so. For more information go to www.hmrc.gov.uk and look for Data Protection Act within the Search facility.