Wolters Kluwer

CT

ESSENTIAL COMPLIANCE INSIGHTS

AVIATION FINANCE AND LEASING OPPORTUNITIES IN IRELAND

WRITTEN IN CONJUNCTION WITH TMF GROUP

"A highly-favorable tax regime is one of the main reasons why Ireland is currently a top aviation leasing destination."

Ireland may be a small island on the periphery of Europe, but its favorable tax and regulatory environments are extremely attractive to businesses. The country plays a prominent role in many sectors, and serves as the capital of the global aircraft leasing industry.

The numbers are impressive: Ireland-based leasing firms manage approximately 40 percent of the world's commercial aircraft and roughly $150 billion in aircraft assets. Half of the planet's leased aircraft come from Irish firms, and virtually all of the world's top aviation leasing firms are based in Ireland. These companies include industry heavyweights such as Aercap, Aircastle, Avolon, AWAS, GE Capital Aviation Services and SMBC Aviation Capital.

CONDITIONS ARE RIGHT FOR PHENOMENAL GROWTH

> *Driven by the demand for commercial aircraft, 2014 was another strong year for the Irish aircraft leasing industry. The industry also benefited from continued investor confidence in the asset class and an overall widening of the types of assets available for leasing to include helicopters and private jets*
>
> – TMF Group

A highly-favorable tax regime is one of the main reasons why Ireland is currently a top aviation leasing destination. Ireland offers the benefit of double taxation treaties, the absence of withholding tax on lease rentals, very low corporate taxes and specific exemptions on dividend withholding tax on profit extraction.

Additionally, Finance Bill 2011 brought about changes that now allow aircraft and engines to be classified as qualifying assets under the section 110 regime. This switch has helped deepen Ireland's already undisputed position as the world's best jurisdiction in which to own and lease aircraft via a leasing platform.

Finally, a ministerial order issued in 2014—scheduled to be implemented in 2015—will permit the Cape Town Convention Alternative A insolvency remedy to be used in Ireland. The use of this remedy should pave the way for a significant increase in aircraft structured financial transactions. This includes issuance of Irish Enhanced Equipment Trust Certificates (EETCs).

The aviation industry is poised to experience phenomenal growth in the coming years, many industry observers believe. The vast Chinese middle class and emerging markets in places such as Brazil, South Africa and Indonesia will provide the impetus for this explosive trend.

With conditions now more favorable than ever, many local lessors are focused on portfolio expansion, while a considerable stream of new entrants have entered the market.

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AVIATION LEASING CONSIDERATIONS

> *With more than $120 billion expected to be needed for deliveries in 2015, and even higher numbers forecast for future years, there is tremendous opportunity for aircraft finance market participants and investors, but also some unique challenges.*
>
> – Boeing Current Aircraft Finance Outlook 2015

Appointing a Process Agent

One of the advantages of operating in the Irish market is the speed with which a leasing platform may be set up. This process may take as little as five days, yet still requires careful planning to ensure regulatory compliance and operational effectiveness.

Purchasing or leasing a plane can be a complex task, requiring coordination between a variety of stakeholders and jurisdictions. It's advisable to identify a process service agent team early in the process. This helps ensure service of process and other legal arrangements are handled properly. Without this guidance, the risk of costly delays—or even the likelihood of deals falling through entirely—increases.

By appointing an accredited process agent, lenders receive assurance that all legal documents will be delivered by hand, and that the counterparty will always be reachable through the agent. Some lenders attach such importance to the appointment of a process agent, that they require that the designation be made irrevocable, in order to ensure that agreements remain in effect throughout the duration. This means it's critical to find a reputable and responsive agent early on.

Tax Obligations in Ireland

Ireland offers a network of double taxation treaties, a corporate tax rate of 12.5 percent and an eight-year tax depreciation write off period, as well as the benefits derived from incorporating and using section 110 vehicles to hold and own aircraft.

Additionally, recent regulatory changes have introduced a specialized corporate vehicle for aircraft leasing—designated activity companies (DACs)—which could have a significant impact on the industry. By putting the right adviser in place from the beginning, companies can ensure tax efficiency and expert guidance when it comes to navigating changing regulations.

It's important to remember that leasing companies in Ireland need to register for corporation tax as soon as possible. Certificates of tax residency—and in some cases VAT registration—must also be in order.

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Finding Local Assistance for Operational Needs

Entering a new market presents a variety of operational challenges: hiring staff, locating office space, opening bank accounts and staying compliant with local laws, just to name a few.

Payroll services are another key consideration. At the start, many aircraft leasing firms have a relatively small number of employees with personalized salary and benefits packages. Many small or mid-sized leasing firms choose to handle this task externally, making payroll one of the most commonly outsourced professional services in Ireland.

CONCLUSION

The reasons why Ireland such is an important player in global aviation is clear. Ireland is home to a strong collection of aviation industry executive talent, and is a stable, English-speaking member of the European Union with a favorable legal and regulatory landscape. However, there are some important operational steps and challenges that must be considered in order to ensure a successful venture.

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