

# VAT EXEMPTION GUIDE FOR GRANTEES OF EU FUNDS IN THE WESTERN BALKANS AND TÜRKIYE

October 2024

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## ABOUT THIS GUIDE

Recipients of EU funds in the Western Balkans and Türkiye are generally exempt from paying VAT. It is, therefore, a usual requirement that grant recipients, including CSOs, ensure that they do not pay VAT on their purchases of goods, services and works. Payment of VAT is regarded as a non-eligible expense in this regard.

However, the procedures for registering for VAT exemption and obtaining VAT exemptions (or refunds) when making purchases are not always straightforward and often change.

This guide has been prepared by the EU TACSO 3 team as a ready reference to VAT exemption and VAT refund requirements for civil society organisations funded by the European Union in the Western Balkans and Türkiye.

It is aimed primarily at civil society organisations in the region that are recipients of EU grant funds, either country-level or regional.

The guide is compiled from available documentation and guidance and will be updated regularly if there are changes.

If you are aware of any changes to VAT legislation affecting EU-funded civil society organisations in the region, please contact [welcome@tacsof.leu](mailto:welcome@tacsof.leu)

The latest version of this guide is available on the EU TACSO 3 website: <https://tacsof.leu/>

## OVERVIEW OF GRANT-MAKING AND SUB-GRANTING COMBINATIONS

There are a number of combinations of grant-making and sub-granting, and these are critical to knowing whether a grant is eligible for VAT exemption or refund. In general, there is no difference whether the grant is a *regional* or *multi-country* grant from the Civil Society Facility or a grant within an individual IPA beneficiary. For country-level grants, the situation is usually simpler, in that the applicant, co-applicants and sub-grantees all fall within the same jurisdiction as far as VAT is concerned.

This guide explains the situation and procedures for the most common combinations, as follows.

- For main applicants in any of the IPA beneficiaries in the region: Albania, Bosnia and Herzegovina, Kosovo\*, Montenegro, North Macedonia, Serbia and Türkiye.
- For co-applicants in any of the IPA beneficiaries, when the main applicant is in the *same* IPA Beneficiary
- For co-applicants in any of the IPA beneficiaries, when the main applicant is in *another* IPA Beneficiary
- For sub-grantees, when the grant-making organisation (could be applicant, or co-applicant) is in the same IPA Beneficiary
- For sub-grantees, when the grant-making organisation is in another IPA Beneficiary.

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\* This designation is without prejudice to positions on status and is in line with UNSCR 1244 and the ICJ opinion on Kosovo Declaration of Independence.

This guide does not address the situation when the applicant or co-applicants are outside the region.

The guide also does not cover tax exemption procedures for import and export of goods.

The guide is intended for current grantees receiving grants under **IPA III**. The situation for IPA II can be different, so for those with older grants would need to check that the information provided here is valid for them.

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## GLOSSARY OF TERMS AND ABBREVIATIONS

The following is a list of the main terms and abbreviations used in this guide, with a description of their meaning in this context.

<b>Term</b>	<b>Explanation</b>
<i>Applicant</i>	Also 'Main Applicant' or 'Lead Applicant'. The CSO or other legal body which has signed the grant agreement with the EU on behalf of all partners.
<i>Co-applicant</i>	A CSO or other legal body that is a named partner in the grant agreement with the EU, but is not the main applicant
<i>FSTP</i>	Financial Support for Third Parties – the activity of providing sub-grants within a main CSF grant from the EU. 'Third Party' refers to CSOs or other legal entities that are not part of the main grant agreement.
<i>Sub-grantee</i>	A CSO or other legal body that is given a grant (sub-grant) to carry out a project or other set of activities within a programme or project that is financed by a CSF grant from the EU.
<i>Tax authority</i>	The main government body responsible for administration the collection of taxes, usually including VAT.
<i>VAT</i>	Value Added Tax, often known as sales tax or purchase tax
<i>VAT exemption</i>	The ability to pay for goods or services without paying the VAT that would normally be added
<i>VAT refund</i>	The money returned to a purchaser equivalent to the value of the VAT, after purchasing a good or service at the full sales price including VAT.

## ALBANIA

### OVERVIEW

Non-profit organisations funded by foreign donors, including Civil Society Facility funds both from the EU Delegation and regional CSF funds, are eligible for VAT exemption and refund provided contracts are under IPA III (IPA II projects are not eligible for exemption).

Applicants first have to obtain a **Project Registration Certificate** which certifies that the project funds are eligible for VAT exemption. This is issued by the State Agency for Strategic Programming and Aid Coordination (SASPAC). The Project Registration Certificate contains a Unique Project Identification Code. On the basis of this certificate, each implementing partner of the project – Applicant, Co-applicants and sub-grantees – have to apply separately to their local tax administrations for a **VAT Exemption Registration Certificate**. This certificate, and its registration number, entitles them to purchase goods and services without VAT.

Invoices issued by suppliers must include the **Project Unique Identification Code** contained in the Project Registration Certificate and the certificate number issued by the local tax administration. Invoices that are VAT exempt must also include the article of the law that allows for VAT exemption.

### WHO IS EXEMPT?

**Main applicants:** if the main applicant is in Albania, they are eligible for VAT exemption. It is the main Applicant's responsibility first to apply for a Project Registration Certificate. On the basis of this Certificate, the Applicant applies to the local tax administration office for a VAT exemption registration certificate.

**Co-applicants (main Applicant in Albania):** If the co-applicant and main applicant are in Albania, then the co-applicant is also entitled to VAT exemption based on the status awarded to the main applicant. The main Applicant applies for the Project Registration Certificate. Co-applicants then apply to their local tax administration offices with information about the Project Registration Certificate. On the basis of this information, the Co-applicants are each awarded a VAT exemption registration certificate.

**Co-applicants (main Applicant outside Albania):** if the main applicant is outside Albania, but a co-applicant is in Albania, the co-applicant must lead the process for VAT exemption status. The co-applicant first registers the project for a **Project Registration Certificate and Project Unique Identification Code**. If there are more than one Co-applicants in Albania, then one of them should be selected to make the application. On the basis of the project registration certificate, the co-applicant, any other co-applicants in Albania should then apply separately to their respective local tax administration offices for **VAT Exemption Registration Certificates**.

**Sub-grantees:** if the sub-grantee is in Albania and receives a grant from a grant-maker in Albania, the sub-grantee is eligible for VAT exemption status based on the status of the grant-making organisation.

Sub-grantees must apply for VAT exemption status with their local tax administration office, using the Project Registration Certificate provided by the main Applicant (or Co-applicant).

**Sub-grantees:** if the sub-grantee is in Albania, and the applicant and co-applicants (grant-makers) are all outside Albania, the sub-grantee is entitled to VAT exemption. In this case, each sub-grantee has to lead the procedure for applying for exemption, making the application for the Project Registration Certificate based on the sub-grant received (not the whole grant) and registering with their local Tax Administration office.

**In-country activities without applicants, co-applicants or sub-grantees in country:** if activities are organised in Albania which require purchase of goods or services in the country, but the organising CSOs are outside the country, VAT exemption is **NOT** possible. In this case, the main applicant needs to confirm with the task manager of the grant that VAT is an eligible expense for activities taking place in Albania.

## REPORTED CHALLENGES

The VAT exemption system for IPA III funded projects was introduced by law in September 2023, and currently the procedures for obtaining project registration is under development. There are reportedly some teething troubles in the procedure.

## HOW DO WE REGISTER FOR VAT EXEMPTION?

The VAT exemption status is awarded for each grant contract with a donor (in this case, the EU). This means that if several CSOs are operating within the same grant contract (e.g. as applicant, co-applicant and sub-grantee) in Albania, they are all operating under the same grant contract and same Project Registration Certificate.

The Applicant (or co-Applicant) first registers the project with SASPAC. Once registered, each implementing partner in Albania (Applicant, Co-applicant, sub-grantee) needs to register separately with their Regional Tax Directorate. The respective Regional Tax Directorates then issue an exemption certificate to each partner.

The official procedures are described as follows:

Registration of the project by the main implementing partner in Albania should be made through the State Agency for Strategic Programming and Assistance Coordination (SASPAC).

- a. The project implementer or beneficiary (when there is no implementer) shall register their project in SASPAC by submitting the following:
  - i. A request in writing. The request shall be accompanied by the approved donation/grant agreement, signed between the Council of Ministers of the Republic of Albania/Republic of Albania and foreign donors, which clearly specifies the condition that the donations/grants foreseen in the agreement shall not be paid to pay taxes;
  - ii. A copy of the act through which the project is approved;



- iii. Any other documents considered necessary from SASPAC.
- b. SASPAC shall assess the request and documents submitted by the project implementer/beneficiary and if it (SASPAC) finds it to be complete, it shall issue a Project Registration Certificate within 5 (five) working days from the date the request is received. If the documentation is found to be incomplete, SASPAC shall immediately notify the project implementer/beneficiary about the missing documents, giving them 10 (ten) days for submission.
- c. The Certificate shall contain elements like: name of project, the project's starting date and completion date, the initial amount of funding, the data of the project implementer and beneficiary, as well as a unique **Project Identification Number** issued by SASPAC for this purpose.
- d. SASPAC shall immediately send a copy of the project registration certificate, together with a copy of the documentation foreseen under letter a above to the General Tax Directorate and General Directorate of Customs.
- e. In case of changes to the terms of the agreement and/or project, the project implementer/beneficiary shall notify SASPAC within a 5 (five) days deadline. In this case, SASPAC shall reflect the changes to the issued certificate and send it immediately to both the General Tax Directorate and the General Customs Directorate.

Registration of the contract(s) with the respective Regional Tax Directorate:

- a. The General Tax Directorate shall issue, on the next working day, the certificate issued by SASPAC, together with the documentation to the Regional Tax Directorate where the entity contracted by the project implementer/beneficiary is registered for VAT purposes.
- b. The contractor(s) shall submit to the Regional Tax Directorate, where it(they) is(are) registered a notary-certified copy of the contract(s) agreed and signed with the project implementer or beneficiary when the latter does not delegate the project to a project implementer. The respective Regional Tax Directorate shall register the contractor(s) and the project implementer/beneficiary on a special register, and within 5 (five) working days, issue a certificate for those registered to be treated as suppliers similar to exports, according to Form 7A, which is an integral part of this instruction. This certificate shall be valid until the completion of the project according to the criteria foreseen in the agreement.
- c. The **Project Unique Identification Code**, specified in the certificate issued by SASPAC, shall be identified in every invoice with zero per cent VAT issued by the contractor for the project implementer/beneficiary, as well as on every invoice that the suppliers of goods/services (be it supplies subject to VAT or exempt from VAT) issue to the approved contractor.
- d. In the invoices it issues, the contractor shall reflect the legal provisions, **i.e. letter c, point 1 of Article 60, of the law**, which provides for the supplies to be treated as similar to export, subject to zero percent VAT, as well as the number of the certificate issued by the Regional Tax Directorate. The contractor's suppliers of goods/services, on the other hand, be they subject to VAT or exempt from VAT, shall reflect the number of the certificate issued by the Regional Tax Directorate on their invoices.
- e. Invoicing for supplies of goods and services shall be made according to the rules provided by the law on value added tax and on the legislation on invoices and turnover monitoring system.

The 7A form (Certifikate regjistrimit te projektit – kontrates per efekt te trajtimit si furnizim i perngjashem me eksportet) is downloadable at <https://www.tatime.gov.al/d/8/129/209/185/tatimi-mbi-vleren-e-shtuar>

## HOW DO WE PUT THE VAT EXEMPTION INTO PRACTICE?

**VAT exemption is realised on each purchase made by any of the project partners.**

In order to make a purchase without VAT, the supplier has to include the following information on the invoice:

- a. Project Identification Number
- b. number of the certificate issued by the Regional Tax Directorate
- c. Reference to the provision of the law on VAT: **letter c, point 1 of Article 60**

The website of the tax directorate in English is <https://www.tatime.gov.al/eng/>, and the e-mail: [e-tatime@tatime.gov.al](mailto:e-tatime@tatime.gov.al)

## LEGAL BACKGROUND

The following is an unofficial translation of an extract from the relevant law

Instruction No. 27, dated 13.09.2023, published in the Official Gazette no.137, date 20.09.2023

### Article 1

In Article 2, "General Definitions", the following additions are made:

- a) After point 10, point 10/1 is added with the following content: "10/1. A program financed by the financial assistance of the European Union is an annual or multi-year action plan approved by the European Commission for the implementation of IPA financial assistance for the Republic of Albania, defining the objectives, expected results, main activities, implementation methods, budget and indicators, the timeline, all related supporting actions and the method for monitoring the results of program implementation".
- b) At the end of point 11, the words added are: "...projects defined in cooperation programs/protocols or strategic documents."

### Article 2

Article 63/1, "Procedure of import exemption and treatment as supply similar to exports for donation/grant agreements" is reformulated as follows:

"Article 63/1"

Procedure for import exemption and treatment as a similar supply to exports for donation/grant agreements with donors, except for grants from the European Union

1. Pursuant to letter "c", point 1, article 60, of the law, for VAT purposes, it is treated as a supply similar to exports, a supply of goods/services, intended for the realization of projects financed with funds received on the basis of a donation/grant agreement, concluded between the Council of Ministers of the Republic of Albania/Republic of Albania and foreign donors, if the agreement stipulates that the funds received will not be used to pay taxes in Albania.

2. To ensure treatment with the zero percent VAT tax rate, the implementer or beneficiary of the project (when there is no implementer), must be registered for VAT purposes and follow the following procedure:

2.1 Registration with the tax authority for VAT purposes of the implementer/beneficiary (when there is no implementer)/contractor of the project:

So that the foreseen scheme in letter "c", point 1, article 60 of the law to work, can function the implementers/beneficiaries (when there is no implementer)/contractors must be registered for VAT. Registration for VAT purposes enables the issuance of tax invoices with zero percent VAT for domestic supplies by contractors, as well as the acceptance of these invoices by project implementers/beneficiaries. Registration for VAT can also be done through the tax representative, according to the provisions of the law on value-added tax.

2.2 Pursuant to point 1, the registration of the project implementer/beneficiary in the State Agency for Strategic Programming and Aid Coordination (SASPAC) is done:

a. In the case of cooperation agreements/protocols signed by the head of SASPAC, the responsible directorate for the coordination of foreign aid, directs to SASPAC the request for registration and issuance of the certificate for each project/program mentioned in their content.

b. In the case of agreements forwarded through diplomatic channels to SASPAC, the responsible directorate for the coordination of foreign aid, directs to SASPAC the request for registration and issuance of the certificate for each project/program mentioned in the agreement content.

c. The agreement is between the Albanian institution responsible for the coordination of foreign aid, the project implementer, or the project beneficiary (when there is no implementer), registers the project in SASPAC, presenting:

i. Written request where the governmental framework agreement between the Republic of Albania or the Council of Ministers of the Republic of Albania and the governments of foreign countries for the provision of financial cooperation or development cooperation between the two countries is attached, together with the cooperation protocol or strategic document of the donor for supporting Albania (if there is one);

ii. Reference data for the act by which the agreement/protocol/strategic document was approved (if there is one)

- d. SASPAC evaluates the request and documentation submitted by the project implementer/beneficiary and if it is complete, issues the Project Registration Certificate within 10 (ten) working days from the date of receipt of the request. If deficiencies are found in the documentation, SASPAC immediately notifies the project implementer/beneficiary of the identified deficiencies and their completion, within a 10-day (ten-day) period;
- e. The certificate contains the elements, such as: the name of the project, the start date and the end date of the project, the initial value of the project financing, the data of the implementer and the beneficiary of the project, as well as the Unique Identification Code of the Project, issued by SASPAC for this purpose;
- f. SASPAC immediately sends a copy of the project registration certificate, together with copies of the documentation provided for in letter "a" above, to the General Directorate of Taxes (GDT) and the General Directorate of Customs (GDC);
- g. In case of a change in the terms of the agreement and/or the project, the implementer/beneficiary of the project must notify SASPAC within a period of 5 (five) days. In this case, SASPAC reflects the changes in the issued certificate and immediately sends it to GDT and DPD;
- h. In case of a change in the value of the funding and/or the project, the implementer/beneficiary of the project must notify SASPAC within a period of 5 (five) days. In this case, SASPAC reflects the changes in the issued certificate and immediately sends it to GDT and GDC;
- i. The DPT and the DPD report at the end of the following month of each quarter to SASPAC, detailed data for each transaction they have carried out with exempt VAT (data on the project implementer/beneficiary, NIPT, code certificate unique, value, currency).

### 2.3 Registration of the contract/s in the relevant Regional Tax Directorate (RTD):

- a. The GDT forwards the certificate issued by SASPAC, together with the documentation sent according to letter "d", of point 2.2, above, the next working day, to the RTD where the contractor is registered for VAT of the project implementer or project implementer/beneficiary;
- b. The contractor/s submits to the RTD where it is registered a notarised copy of the contract agreed upon and signed with the implementer or the beneficiary of the project, in cases where the latter does not delegate the project to a project implementer.

The relevant RTD registers in a special register the contractor/s and/or implementer/beneficiary of the project, and within 5 (five) working days, issues the certificate for the effect of treatment as a similar supply to exports, according to form 7A, an integral part of this instruction. This certificate is valid until the end of the project, according to the criteria provided in the agreement;

- c. The Unique Project Identification Code, defined in the certificate issued by SASPAC, will be evidenced in every invoice issued with zero percent VAT by the contractor for the implementer/beneficiary of the project, as well as in every invoice that suppliers of goods/services (whether these supplies are subject to VAT or exempt from VAT) issue to the approved contractor;

d. In the invoices issued by the contractor it must reflect the provision of the law, specifically, letter "c", point 1, article 60, according to which this supply will be treated as a supply similar to exports, with zero VAT, as well as the number of the certificate issued by the RTD. Meanwhile, suppliers of goods/services to the contractor, whether these supplies are taxable with VAT or exempt from VAT, will reflect the number of the certificate issued by the RTD on the invoice;

e. Invoicing of supplies of goods and services is carried out according to the rules defined in the law on value-added tax and in the legislation on the invoice and circulation monitoring system.

### 3. Application of VAT during project implementation by the contractor

The contractor, as a subject registered for VAT, during the implementation of the contract signed with the project implementer, offers supplies of goods/services that are treated as supplies similar to exports, so with a zero percent VAT rate, according to letter "c", point 1, article 60, of the law;

### 4. Declaration of transactions for VAT purposes by the contractor/s and refund of VAT paid on the purchase of goods and services

The contractor/s declare the supply of goods/services carried out according to letter "c", point 1, article 60 of the law, in the sales book and then in the VAT declaration format under the heading "Similar sales with exports", while the purchases made for the purpose of this scheme, in the column "Purchases intended for the realization of projects financed with donations/grants".

For the purchases realised in the function of the project implementation, whether these purchases are at standard or reduced VAT rate, the contractor enjoys the right to VAT deduction, according to the provisions in articles 68-84, of chapter IX, of the law. In case the contractor results in a credit surplus, he has the right to reimbursement, according to the criteria defined in the law on value-added tax and the by-laws in its implementation.

In the case of regional programs that are implemented directly by the European Commission or by a party entrusted by the European Commission for the implementation of the program, the European Commission/Delegation of the European Union in Albania shall register the project in SASPAC by presenting:

- a. A written request;
- b. The official announcement on Albania's eligibility to be part of the program, based on the eligibility criteria;
- c. The identification document of the program, including the general information on the program, the description of the program, information on the implementer(s), and timeframe;
- d. A copy of the act by which the project was approved, as part of the program;
- e. Any other document deemed necessary by SASPAC.

SASPAC evaluates the request and the submitted documentation and if it is complete, issues the Certificate of Program/Project Registration, in the direction of the European Commission/Delegation of the European Union in Albania, within 10 (ten) working days from the date of receipt of the request. If deficiencies are found in the documentation, SASPAC immediately notifies the European Commission/Delegation of the European Union in Albania of the identified deficiencies and their completion, within a period of 10 (ten) days. The European Commission/Delegation of the European Union in Albania forwards the certificate issued by SASPAC to the implementer/beneficiary of the project.

## BOSNIA AND HERZEGOVINA

### OVERVIEW

Non-profit organisations funded by EU IPA funds (which includes EU Civil Society Facility funds) are eligible for VAT exemption on purchases of goods and services purchased with the granted funds. The main requirement is that the CSO eligible for VAT exemption has a registered office in Bosnia and Herzegovina and a bank account in the country. The CSO claiming VAT exemption should obtain exemption status *before* making any purchases. While it is possible to reclaim VAT already incurred, it can be a complicated process. VAT exemption status is obtained from the EU Delegation (EUD) in Bosnia and Herzegovina, if the project is managed by the EUD. If the project is managed elsewhere in the region, or by DG NEAR in Brussels, applications for VAT exemption status go through the task manager, who works closely with the EUD in BiH.

### WHO IS EXEMPT?

**Main Applicants:** if the main Applicant is in Bosnia and Herzegovina, it is their responsibility first to apply for VAT exemption status. Based on the status awarded, they are entitled to purchase goods and services without VAT.

**Co-applicants (main Applicant in BiH):** If the main Applicant is also in BiH, the main Applicant applies for VAT exemption status to the EUD on behalf of all named Co-applicants.

**Co-applicants (main Applicant outside BiH):** if the main Applicant is outside Bosnia and Herzegovina, but a co-applicant is in Bosnia and Herzegovina, the main Applicant must first apply for VAT exemption status to the EUD in BiH.

**Sub-grantees:** if the sub-grantee is in Bosnia and Herzegovina and receives a grant from a grant-maker in Bosnia and Herzegovina, the sub-grantee is eligible for VAT exemption status based on the status of the grant-making organisation. However, the grant-making organisation, whether inside or outside Bosnia and Herzegovina, has to make the application for VAT exemption on behalf of the sub-grantees.

**Sub-grantees:** if the sub-grantee is in Bosnia and Herzegovina, and the applicant and co-applicants (grant-makers) are all outside Bosnia and Herzegovina, the sub-grantees are entitled to VAT refund status. As above, the grant-making organisation, whether inside or outside Bosnia and Herzegovina, has to make the application for VAT exemption on behalf of the sub-grantees.

**In country activities without applicants, co-applicants or sub-grantees in country:** if activities are organised in Bosnia and Herzegovina which require purchase of goods or services in the country, but the organising CSOs are outside the country, VAT exemption is not possible. In this case, the organising CSO(s) need to request from their EU task managers and/or contracts and finance departments that expenses for VAT in this case count as eligible expenses. This request is not automatic, and it should not be regarded as certain that it is possible for the cost of VAT to be counted as an eligible expense.

## HOW TO OBTAIN VAT EXEMPTION?

There is a unified approach as presented in the Guidelines/Instructions annexed to the contract that each contractor receives for a project funded by IPA programmes. As there are a lot of specificities regarding these procedures in Bosnia and Herzegovina (BiH), which are closely related to the type of contracts and programming for which they apply to, the Delegation of the European Union (EUD) to BiH recommended the following:

- Instructions and Guidelines for VAT exemption procedures are established by the Indirect Taxation Authority (ITA) of BiH for the Delegation of the European Union contractors under IPA funds, and are available on the ITA web site.
- All contractors/consortium members for IPA II and IPA III projects who have a **contract directly with** the EU Delegation in BiH or with DG NEAR are strongly advised to contact the EUD using the functional mailbox: [delegation-bosnia-and-herzegovina-vat@eeas.europa.eu](mailto:delegation-bosnia-and-herzegovina-vat@eeas.europa.eu) for all VAT issues, including a description of what documentation/information are needed by the EUD to issue the exemption form
- All other contractor/consortium members for IPA III projects who have a **contract with other EU instruments**, including Union programmes, must contact their donor/desk officer who will then work closely with the EU Delegation. The contract number should be stated in all communication.
- Once you have submitted your request for exemption, the EUD will issue the exemption form (IPA DEU II or IPA DEU III) that you need to collect at the Delegation, that will contain a 'unique certificate control number'. This 'unique certificate control number' will enable you to make purchases free of VAT. This certificate is valid for the entire duration of the project, as well as for the amount and contractor/consortium member that is/are named on the form as beneficiary of the exemption.

**Grantees are strongly warned not to start spending their budget before contacting the EUD to prevent mistakes that cannot be reimbursed once the VAT procedure is in place.**

## HOW DO WE PUT THE VAT EXEMPTION INTO PRACTICE?

Once you have received the exemption form signed by the EUD, you can now purchase supplies and services exempt from VAT. The procedure is as follows:

1. Before any costs are incurred, inform any service suppliers/providers about the IPA programme under which the grantee conducts its activities. Send suppliers/providers information on the Instructions on VAT exemption for IPA Funds and the legal background information on legally binding procedures, which is quoted in the Official Gazette. This explains that, on each invoice, 0% VAT (price without VAT) should be shown.
2. Suppliers/providers must include the unique Certificate control number on the invoice, after the wording: 'kontrolni broj potvrde'. Invoices should include the clause: "Oslobodjeno od placanja PDV-a u skladu Članom 29. stav 2. Zakona o porezu na dodatnu vrijednost, kontrolni broj potvrde: \_\_\_\_\_".



3. If the invoices include the control number, as described above, payment can be made without VAT, from the contractor's bank account

#### FOR FURTHER INFORMATION AND CONTACTS:

- Indirect Taxation Authority, <https://www.uino.gov.ba/portal/en/>
- Instructions and Guidelines for VAT exemption procedures - <https://www.uino.gov.ba/portal/en/regulations/vat/>
- Instructions on VAT exemption for IPA Funds <https://www.uino.gov.ba/portal/wp-content/uploads/95-ENGLESKI-PROPISI/1-VAT-PDV/3-Instruction-IPA.pdf>
- Contact point in EUD for VAT exemption certificate: [delegation-bosnia-and-herzegovina@eeas.europa.eu](mailto:delegation-bosnia-and-herzegovina@eeas.europa.eu)

## OVERVIEW

Non-profit organisations funded by EU IPA funds (which includes EU Civil Society Facility funds) are eligible for VAT exemption on purchases of goods and services purchased with the granted funds. The exemption is based on the recognition by the Tax Administration of Kosovo (TAK) of the grant contract between the EU and the main Applicant. All organisations receiving and spending funds from a recognised grant are eligible to VAT exemption on purchases of goods and services, and refund of VAT already incurred.

## WHO IS EXEMPT?

**Main Applicants:** if the main Applicant of a CSF grant is based in Kosovo, they are eligible for VAT exemption on grant funds used to purchase goods and services. If the grant contract is directly with the EU Office in Kosovo (EUOK) the Tax Administration of Kosovo (TAK) is informed automatically. The EUOK sends regularly to TAK a list of all newly signed contracts for the purpose of VAT exemption.

If the main Applicant based in Kosovo has a grant contract for a regional CSF project signed by DG NEAR instead of the EUOK, then the Applicant has to approach TAK (Mr. Sami SALIHU [Sami.Salihu@atk-ks.org](mailto:Sami.Salihu@atk-ks.org)) with a copy of the grant contract. This will enable TAK to list them as EU contractors/beneficiaries to be able to get tax exemptions as per standard procedures.

**Co-applicants (main Applicant in Kosovo):** If Co-applicants are based in Kosovo and the main Applicant is also Kosovo, Co-applicants are entitled to VAT exemption on grant funds spent on goods and services. If the main Applicant is in Kosovo and the grant is awarded through the EUOK, the TAK is automatically informed of the grant. In this case, the Co-applicant has to approach TAK, with a copy of the grant contract. This will enable TAK to list them as EU contractors to be able to get tax exemptions as per standard procedures.

**Co-applicants (main Applicant outside Kosovo):** If the main Applicant is not in Kosovo, the Co-applicant in Kosovo are entitled to VAT exemption on goods and services. In this case, the Co-applicant should provide TAK with a copy of the grant contract. This will enable TAK to list them as EU contractors to be able to get tax exemptions as per standard procedures.

**Sub-grantees (grant-maker in Kosovo):** if the sub-grantee is in Kosovo and receives a grant from a grant-maker in Kosovo, the sub-grantee is eligible for VAT exemption on purchases of goods and services, based on the status of the grant-making organisation. The CSOs receiving the sub-grant are responsible for applying for VAT exemption. The grant-making organisation (Applicant or Co-applicant) has to ensure that relevant contractual information (especially related to the source of funding) is included in their contracts with sub-grantees.

**Sub-grantees (grant-maker outside Kosovo):** if the sub-grantee is in Kosovo and receives a grant from a grant-maker outside Kosovo, the sub-grantee is eligible for VAT exemption on funds spent based on

the status of the grant-making organisation. The CSOs receiving the sub-grant are responsible for applying for VAT exemption. The grant-making organisation has to ensure that relevant contractual information (especially related to the source of funding) is included in their contracts with sub-grantees.

**In-country activities without applicants, co-applicants or sub-grantees in country:** if activities are organised in Kosovo which require purchase of goods or services in the country, but the organising CSOs are outside the country, VAT exemption is possible. The project needs to be registered with TAK, who will accept a copy of the grant contract as proof.

## LEGAL BACKGROUND

According to article 30, Paragraph 2, sub-paragraph 2.1. and article 33, paragraph 3, sub-paragraph 3.1 of the [Law No. 05/L-037 for Value Added Tax](#), **projects that are financed with donations** are exempt from VAT on imports of goods or local purchases. This includes EU funded projects as well. Specifically:

Article 30, para 2. Special exemptions:

“2.1. imports funded from the proceeds of donations made to the budget or through the budget of Kosovo or under the supervision of competent bodies or directly financed through contracts for the benefit of Ministries, local authorities and other bodies governed by law, from international inter-governmental organisations and their agencies, governments, government agencies, governmental or non-governmental organisations in support of humanitarian and reconstruction programs and other projects including European integration projects in Kosovo;”

Article 33, para 3, Special exemptions:

“3.1. the supply of goods or services funded from the proceeds of grants made to the budget or through the budget of Kosovo or under the supervision of competent bodies or directly financed by contracts for the benefit of Ministries, local authorities and other bodies governed by law, by governments, governmental or non-governmental organizations in support of humanitarian and reconstruction programs including European integration projects in Kosovo.”

## WHAT KINDS OF PURCHASES ARE EXEMPT FROM VAT?

The purchase of goods or services funded by the EU grant contract through the grant recipient are eligible for VAT exemption.

## HOW DO WE REGISTER FOR VAT EXEMPTION?

Each CSO who is financed through a CSF grant as applicant, co-applicant or sub-grantee, has to apply separately for VAT exemption.

Grant recipients need to have a proof of financing from the European Commission. This can take the form of the financing agreement, or other proof issued by the Commission.

Proof of financing should be requested from the financing authority (i.e. either DG NEAR in the case of regional CSF funds, or the EU Office in Kosovo in the case of funds managed by the EUOK).

For sub-grantees, the proof of financing should be included in their grant contract with the grant-making organisation, including relevant contractual information (especially related to the source of funding) is included in their contracts with sub-grantees.

The application for VAT exemption should be made to the Department for Services and Education of Taxpayers, TAK. Website: [www.atk-ks.org](http://www.atk-ks.org), Email: [info@atk-ks.org](mailto:info@atk-ks.org) and [Qendra.Thirrjeve@atk-ks.org](mailto:Qendra.Thirrjeve@atk-ks.org).

## HOW DO WE PUT THE VAT EXEMPTION INTO PRACTICE?

### EXEMPTION ON GOODS AND SERVICES

All projects funded by the EU, have the option of VAT exemption using a direct method.

For every purchase of any goods or services, the supplier must be notified in advance and provided with a copy of the financing agreement, or proof of financing by the EU.

The supplier or service provider should then issue an invoice that is VAT free.

For goods and supplies provided in Kosovo, the supplier should indicate on the invoice the following text “The supply is exempted under article 33, paragraph 3, sub-paragraph 3.1 of the Law No. 05/L-037 for Value Added Tax”. The supplier should also include the EU-funded contract number and title on the invoice.

For imported goods, the supplier should indicate on the invoice the following text “The supply is exempted under article 30, Paragraph 2, sub-paragraph 2.1. of the Law No. 05/L-037 for Value Added Tax”. The supplier should also include the EU-funded contract number and title on the invoice.

### VAT REFUND

In cases of EU funded projects, where VAT has already been paid, a refund can be requested. However, the TAK prefers that VAT is not paid in the first place (ie exempted). This is because the refund procedures are more complex and time-consuming.

Nevertheless, where VAT has already been paid on goods or services, grant recipients are entitled to request a refund of the VAT paid, upon meeting the necessary conditions and submitting the required documentation. However, refunds are only allowed if the organisation was *already* registered for VAT at the time of the purchase of goods or services. Refunds on expenditures made *before* registration for VAT exemption are not possible. A [Registration form for VAT](#) should be submitted to TAK.

The right to reimbursement is defined in paragraph 3, Article 59 of [administrative instruction No. 03/2015](#). Following the specific procedure of completing the tax declaration as defined in article 4 of [TAK Internal Regulation No. 2/2024 on Reimbursement Procedures](#).

According to the new TAK Internal Regulation No. 2/2024 on Reimbursement Procedures, Article 3 – Legal Basis concludes with as follows: “Despite the aforementioned legal provisions, according to this Regulation, the taxpayer shall not be required to complete and submit the request/form for reimbursement, but only the completion of the tax declaration, namely the completion of the relevant section in the tax form according to the types of tax, shall be considered a request for reimbursement of funds”. Also, Article 4 – Request for Reimbursement states as follows: “A request for a reimbursement of funds shall be considered the submission of the tax declaration for VAT, PIT and CIT, by completing the current sections for reimbursement, such as: section 70 in the VAT form, section 43 in the PIT form and section 48 in the CIT form.”

## FURTHER INFORMATION

- Public Explanatory Decision No. 01/2019 on Tax Treatment of Imports and Supplies when Financed Directly by the European Commission:  
[https://www.atk-ks.org/wp-content/uploads/2019/01/Angl\\_VendimiShpjeguesPublikKontraktoreteKomisionitEvropian.pdf](https://www.atk-ks.org/wp-content/uploads/2019/01/Angl_VendimiShpjeguesPublikKontraktoreteKomisionitEvropian.pdf)
- Notice to taxpayers – VAT exemptions for imports/domestic supplies, funded by donor revenues: <https://www.atk-ks.org/en/njoftim-per-tatimpagues-lirimet-nga-tvsh-per-importet-furnizimet-brenda-vendit-te-financuara-nga-te-ardhurat-e-donacioneve/>
- Law no. 05/L -037 on Value Added Tax can be found at the Official Gazette of Kosovo: <https://gzk.rks-gov.net/ActDetail.aspx?ActID=11015>

## MONTENEGRO

### OVERVIEW

All organisations who receive project funds from European Union sources can purchase services and products free of VAT, provided the purchase is within the framework of the funding. The VAT exemption procedures vary depending on the type of EU funding received. This guide covers funding under the Civil Society and Media Facility (CSF).

For CSF projects, the process of obtaining VAT exemption is in three stages. First, the project under the grant needs to be registered as a project that is eligible for VAT exemption. This is usually done by the EU Delegation in Montenegro.

Then, *each expenditure* that is VAT exempt needs to be approved *in advance* by the tax authority in Montenegro. For each expenditure, the CSF grantee submits the certificate of project registration together with supporting documentation to the tax authority. The tax authority then issues a certificate of exemption, which is then given to the supplier. The supplier can then provide the goods or services and issue an invoice without charging VAT.

### WHO IS EXEMPT?

**Main Applicants:** if the main Applicant of a CSF grant is based in Montenegro, they are eligible for VAT exemption on grant funds used to purchase goods and services.

If the grant contract is directly with the European Union Delegation (EUD) to Montenegro, the Applicant should apply first for a general certificate of exemption for the project funds. The procedure can be obtained from the EUD Task Manager after signing the contract.

If the main applicant is based in Montenegro and has a grant contract for a *regional* CSF project and the contract is signed either with the European Commission (DG NEAR) in Brussels directly or with another EUD in the region, the request for the certificate of exemption should be made initially to the responsible Task Manager. It is then passed to the EU Delegation in Montenegro for approval.

**Co-applicants (main Applicant in Montenegro):** If co-applicants are based in Montenegro, whether or not the main applicant is in Montenegro, they are entitled to VAT exemption on grant funds spent on goods and services.

In this case, the Co-applicant(s) does not need to register the project. Only lead Applicants (contract signatories) may submit requests for exemptions for individual purchases/transactions. This does not mean that Co-applicants are not exempted, but it means that lead applicants should submit requests for exemption also on behalf of their partners and sub-grantees. The requests need to be submitted at all times on the letterhead of the contract signatory and consequently, all the certificates will be issued in the name of the contract signatory. This additional workload on the side of the lead applicant needs to be considered as a factor in partnerships between CSOs.

**Co-applicants (main Applicant outside Montenegro):** If the main Applicant is not in Montenegro, the Co-applicant has to follow the procedure as for the regional projects. The main Applicant sends the

request for general exemption of the project funds to their task manager, with EUD Montenegro in copy.

Similarly, for each individual transaction, once the general project exemption certificate has been issued, requests for exemption of individual transactions have to be prepared by the *main Applicant* (regardless of which project implementing partner or sub-grantee is making the transaction). The main Applicant sends the request for exemption to tax authority of Montenegro. The tax authority issues a certificate of exemption, which can then be sent to the supplier who issues an invoice without VAT. As above, the additional workload for the main Applicant, whether it is in Montenegro or not, needs to be factored into the project planning and resource allocation.

**Sub-grantees (grant-maker in Montenegro):** if the sub-grantee is in Montenegro and receives a grant from a grant-maker in Montenegro, the sub-grantee is eligible for VAT exemption on funds spent based on the status of the grant-making organisation. The CSOs receiving the sub-grant are responsible for preparing request and forwarding it to the main Applicant (regardless of which project partner awarded the sub-grant). The main Applicant sends the request to the tax authorities, which then issues an exemption certificate. The sub-grantee can then submit the certificate of exemption to the supplier, and the supplier can issue an invoice without VAT.

**Sub-grantees (grant-maker outside Montenegro):** if the sub-grantee is in Montenegro and receives a grant from a grant-maker outside Montenegro, the sub-grantee is eligible for VAT exemption on funds spent based on the status of the grant-making organisation. The lead Applicant (regardless of its location) should make an application for general VAT exemption in Montenegro via the Task Manager to the EU Delegation in Montenegro. Once the project is certified in Montenegro, sub-grantees can prepare the necessary documentation for exemption for individual transactions and submit to the lead Applicant. The lead Applicant then sends the request for exemption to the tax authorities. On approval, the tax authority issues a certificate of exemption for the transaction. The sub-grantee can then submit the certificate of exemption to the supplier, and the supplier can issue an invoice without VAT.

**In country activities without applicants, co-applicants or sub-grantees in country:** if activities are organised in Montenegro which require purchase of goods or services in the country, but the organising CSOs are outside the country, VAT exemption is not possible. In this case, the organising CSO(s) need to request from their EU Task Managers and/or Contracts and Finance Departments that expenses for VAT in this case count as eligible expenses. This request is not automatic, and it should not be regarded as certain that it is possible for the cost of VAT to be counted as an eligible expense.

## REPORTED CHALLENGES

**Timeframes:** the procedure was introduced in May 2024, and is currently in an early phase. More information on the procedure will be included in later editions of this guide.

However, since requests for VAT exemptions on purchases must be submitted either in person or via regular mail (not electronically), grant implementing CSOs must consider this additional workload and the time delays as part of their project planning.

Since only main Applicants can submit applications for VAT exemption for each item of expenditure, whether the expenditure is made by the main Applicant, Co-applicant or sub-grantee, this will impose a cost and time burden on the main Applicant.

## HOW TO APPLY FOR GENERAL PROJECT EXEMPTION

The application for general project exemption must be made by the main Applicant to the EU Task Manager. The procedures for this are included in or provided with the contract between lead Applicant and EU when it is signed.

If the signatory of the contract from the EU side is not the EU Delegation in Montenegro (i.e. another EU Delegation or DG NEAR in Brussels), then the application for general exemption must be made to the Task Manager, who then forwards the request to the EU Delegation in Montenegro.

Similarly, if a sub-grantee is awarded a grant in Montenegro when neither the main Applicant nor Co-applicants are located in Montenegro, and have not previously registered the project in Montenegro, the lead Applicant must submit a request for the general project exemption to the responsible Task Manager, with the EU Delegation in copy.

The EU Delegation issues a certificate of contract registration, which contains the following information:

- the contracting authority,
- the name of the contractor or grant beneficiary,
- the provision of the international agreement that provides for the exemption,
- the name of the program from which the project is funded,
- the name of the project,
- the project number,
- project duration,
- contract type,
- the total contracted budget or contract value,
- the number and date of the certificate issuance,
- the signature and stamp of the authorized person.

## OBTAINING EXEMPTION FOR INDIVIDUAL TRANSACTIONS

For each purchase of goods or services, applications must be made by the **lead applicant** of the grant to the tax authority of Montenegro.



The request can be submitted in person at the Tax Authority's registry, addressed to the Sector for Operations in the Field of Inspection Supervision, between 8 AM and 1 PM, or sent by registered mail to the following address: Tax Administration, Sector for Operations in the Field of Inspection Supervision, Bulevar Šarla de Gola No. 2, 81000 Podgorica.

The request must include the following documents:

- Certificate issued by the EU Delegation in Montenegro.
- Copy of the Grant Contract in English.
- Grant Contract (Special Conditions) translated into the official language by a certified court interpreter.
- Budget translated into the official language by a certified court interpreter.
- A detailed specification of the costs subject to VAT exemption.
- Completed VAT Exemption Request (Appendix 9 of the Rulebook) (See below).
- Copy of the proforma invoice with separated VAT or the invoice. (Each proforma invoice/invoice must be accompanied by a separate request.)

<https://www.gov.me/poreskauprava>

The request needs to be accompanied by an appropriate pro forma invoice (where applicable) or an invoice (for seminars, conferences and the like where it is not possible to know the exact amount before the event is finished). The (pro forma) invoice needs to have a number, date signature and/or stamp and net amounts clearly indicated.

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## GENERAL REMARKS AND RECOMMENDATIONS

In projects where there are lead applicants and partners, please note that according to local legislation, only lead applicants (contract signatories) may submit requests for exemption. This does not mean that partners are not exempted, but it means that lead applicants should submit requests for an exemption also on behalf of their partners. The requests need to be submitted at all times on the letterhead of the contract signatory and consequently, all the certificates will be issued in the name of the contract signatory.

The Contractors are advised before making a purchase to request a **pro-forma invoice** from their suppliers whenever possible and submit it for tax/customs exemption. However, this is not advised for the supply of services (**e.g. seminars, media events etc.**), as the total amount may not correspond to the initial calculation; therefore, **you are kindly asked to submit only the final invoice for approval.**

Local suppliers are aware of the procedure and will also urge to the certificates to be issued as soon as possible. Therefore, it is essential that you highlight to suppliers that the requested goods/services are project-related and VAT exempted so that they clearly indicate in the invoice project reference - title and number, amounts excluding VAT (net amount), the amount of VAT and total amount. They also should be reminded that they will be paid only the net amount.

## RELEVANT GUIDELINES AND FORMS

- **Rulebook on the procedure for exemption from paying value added tax for investors and the supply of certain products and services** ("Official Gazette of Montenegro", no. 044/24 of 13.05.2024)(original name: **Pravilnik o postupku oslobađanja od plaćanja poreza na dodatu vrijednost investitora i isporuku određenih proizvoda i usluga** ("Službeni list Crne Gore", br. 044/24 od 13.05.2024)) <https://wapi.gov.me/download/a6331eef-f775-41f6-a5d9-ddb5ddda2dd3?version=1.0>
- **Annexes 1 to 12** mentioned in the Rulebook form an integral part of the Rulebook on the procedure for exemption from paying value added tax for investors and the supply of certain products and services, and are available in the **Official Gazette of Montenegro, no. 044/24 of 13.05.2024** starting from page 17. These are available here: <http://sluzbenilist.me/pregled-dokumenta/?id={19A545AC-899D-4F07-ADB8-CB245334AA3A}#>

## PRILOG 9

**Zahtjev za oslobađanje od plaćanja PDV za projekte koji se finansiraju iz sredstava Evropske unije u okviru direktnog upravljanja, odnosno za projekte koji se finansiraju od strane međunarodnih organizacija**

\_\_\_\_\_ (organ nadležan za poslove poreza)

Naziv korisnika:

Naziv ugovora:

Broj potvrde o evidenciji izdat strane Delegacije Evropske unije odnosno od strane međunarodne organizacije:

Na osnovu člana 25 stav 1 tačka 12a odnosno člana 28 stav 1 tačka 12 Zakona o porezu na dodatu vrijednost vrijednost („Službeni list RCG“, br. 65/01, 38/02, 72/02, 21/03 i 76/05 i „Službeni list CG“, br. 16/07, 29/13, 9/15, 53/16, 1/17, 50/17, 80/20, 59/21, 146/21, 49/22, 65/22, 140/22 i 3/23) i člana 21 st. 5 i 6 Pravilnika o postupku oslobađanja od plaćanja poreza na dodatu vrijednost investitora i isporuku određenih proizvoda i usluga \_\_\_\_\_ (**unijeti naziv korisnika**) podnosi:

**ZAHTJEV ZA OSLOBAĐANJE OD PLAĆANJA PDV**

Dobavljač	Račun broj	Datum računa	Kratak opis	Iznos (neto)	Iznos PDV	Ukupan iznos
Ukupno:						

Mjesto i datum podnošenja zahtjeva: \_\_\_\_\_

Potpis i pečat

\_\_\_\_\_

## NORTH MACEDONIA

### OVERVIEW

Non-profit organisations officially registered in North Macedonia and funded by EU IPA funds (which includes EU Civil Society Facility funds) are eligible for VAT exemption on purchases of goods and services purchased with the granted funds. The exemption is based on the Law on Value Added Tax and accompanying Rulebooks for implementation of the law. While exemption is possible, there is no procedure for claiming a refund of VAT already incurred.

There are two steps to the registration for VAT exemption in North Macedonia. First, the *project* has to be registered with the Central Database for Foreign Support (CDAD). Once the project is registered, each organisation implementing the project (Applicant, Co-applicants and sub-grantees) in the country has to apply for VAT exemption.

### WHO IS EXEMPT FROM VAT?

**Main applicants:** if the main applicant of a CSF grant is based in North Macedonia, they are eligible for VAT exemption on grant funds used to purchase goods and services. For a new grant-funded project, the Applicant has to first register for the new project online at the Central Database for Foreign Support (CDAD) (see below for procedures). When approved, the Applicant receives a Project Registration Certificate, which is the basis for VAT exemptions for Applicant, Co-applicants and Sub-grantees.

Once the project is registered, the main applicant must submit a request for a VAT number for the project to the Public Revenue Office (see procedure below).

**Co-applicants (main Applicant in North Macedonia):** If Co-applicants are based in North Macedonia, whether or not the main Applicant is in North Macedonia, they are entitled to VAT exemption on grant funds spent on goods and services. If the main Applicant is in North Macedonia, the main Applicant registers the project and receives a Project Registration Certificate. Co-applicants in North Macedonia that are mentioned in Applicant's registration are automatically included in the exemption certificate and do not need to apply separately, provided they are already named in the project grant contract with the donor. In cases where the Co-applicant is not named in the original contract with the donor, the Co-applicant has to apply separately for project registration.

**Co-applicants (main Applicant outside North Macedonia):** If the main applicant is not in North Macedonia, it is the responsibility of the Co-applicant based in North Macedonia to register the project, including reference to the budget share that is allocated to the Co-applicant (not the whole budget amount). The co-applicant applies online to the Central Database for Foreign Support (CDAD) following the same procedure as for main Applicants based in the country. With the project Certificate, the Co-applicant then submits its application for VAT status on the basis of the Certificate. It is important that the Co-applicants are mentioned in the project contract with the donor. Where the Co-applicant is not mentioned in the donor contract, it is possible for the contract between the main

Applicant and Co-applicant to be used alongside the contract between the main Applicant and donor for VAT registration. In this way, the Co-applicant can confirm its involvement in the project.

**Sub-grantees (grant-maker in North Macedonia):** if the sub-grantee is in North Macedonia and receives a grant from a grant-maker in North Macedonia, the sub-grantee is eligible for VAT exemption on funds spent based on the status of the grant-making organisation. In this case, the CSOs receiving the sub-grant submit the Project Registration Certificate when applying for VAT exemption. The grant-making organisation has to ensure that relevant contractual information (especially related to the source of funding) is included in their contracts with sub-grantees.

**Sub-grantees (grant-maker outside North Macedonia):** if the sub-grantee is in North Macedonia and receives a grant from a grant-maker outside North Macedonia, and the Applicant and Co-applicants are all outside the country, the sub-grantee is eligible for VAT exemption on funds spent based on the status of the grant-making organisation. The CSOs receiving the sub-grant are responsible for applying for VAT exemption. In this case, each sub-grantee of the project in North Macedonia has to apply for their part of the project (i.e. the sub-granted component) to be registered. Once the sub-granted project is registered, the sub-grantee can then register for VAT exemption. The grant-making organisation has to ensure that relevant contractual information (especially related to the source of funding) is included in their contracts with sub-grantees.

**In-country activities without applicants, co-applicants or sub-grantees in country:** if activities are organised in North Macedonia which require purchase of goods or services in the country, but the organising CSOs are outside the country, VAT exemption is possible. The organisation conducting activities in the country has to register for VAT and appoint a tax representative. The tax representative is responsible for calculating the VAT, submitting tax returns, paying the tax, paying interest in case of late payment, and maintaining records on behalf of the foreign entity.

At present, it is not clear whether the costs of the tax representative are considered eligible expenses under a CSF grant. In such cases, the respective EU task manager and/or Contracts and Finance Department would need to decide on eligibility of the cost of the tax representative.

## RELEVANT LEGISLATION

The following legislation governs VAT exemption for projects funded by funds from foreign donors:

- Law on Value Added tax, Article 24a<sup>†</sup> and its implementation is regulated and in correlation with the:
- *Rulebook on the method of implementing tax exemption* from the payment of value added tax on the sale of goods and services intended for the implementation of a project that is financed with funds received based on a donation agreement signed between Republic of Macedonia and foreign donor that no taxes will be paid on the funds received ("Official Gazette of the Republic of North Macedonia", No. 98/14)

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<sup>†</sup> [http://www.ujp.gov.mk/files/attachment/0000/0986/Zakon\\_za\\_DDV\\_Sl\\_vesnik\\_na\\_RSM\\_57\\_22.pdf](http://www.ujp.gov.mk/files/attachment/0000/0986/Zakon_za_DDV_Sl_vesnik_na_RSM_57_22.pdf)

- *Rulebook on the form and content of the invoice*, the form and content of the report, the method of reporting the turnover, the content of the record of invoices kept by the competent tax authority ("Official Gazette of the Republic of North Macedonia", No. 98/14)
- *Rulebook on the method of implementing exemption* from payment of import duties and value added tax when importing goods intended for the project implementation that is financed with the funds received based on an agreement for donation between Republic of North Macedonia ("Official Gazette of the Republic of North Macedonia, No 312/20)

## WHAT ACTIVITIES ARE ELIGIBLE FOR TAX REFUND?

VAT Exemption is available on all purchases of goods and services in the country in which purchases are made using funds from the project that has been awarded a Certificate of Registration.

## WHAT IS THE PROCEDURE FOR OBTAINING VAT EXEMPTION STATUS?

### STEP 1 REGISTERING THE PROJECT

All foreign funded projects/donations must be registered (online or in paper form) in the Central database regarding foreign support (CDAD) in the Secretariat for European Affairs (SEA). This is the first stage in the process of requesting VAT exemption as well.

The registration is made by the Applicant (if based in North Macedonia) or Co-applicant, if the Applicant is not in the country. Application can be done online or in paper form: <https://registracija.cdad.sep.gov.mk>.

In cases where none of the Applicant or Co-applicants are legally established in North Macedonia, each of the sub-grantees will have to register their individual sub-granted project separately.

The documentation<sup>‡</sup> needed for registering a project includes:

- Request (Annex 1)
- Copy of the agreement for funding/donation including all annexes
- Copy of the project application including the budget
- List of long-term experts that would be engaged on the project (if applicable).

When submitting the application, it is important that all known project partners (Applicant, Co-applicants and sub-grantees) are included in the application. In this case, these partner organisations are included in the awarded Certificate of Registration, and do not have to apply separately.

Where partners or sub-grantees are not known at the stage of project registration, the sub-grantees will have to apply separately for their part of the project to be registered.

<sup>‡</sup> <https://www.sep.gov.mk/page/?id=34#.Y8pR4y8w3fK>

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## STEP 2 – APPLYING FOR VAT EXEMPTION STATUS

After the project is registered in CDAD and the Certificate of Registration is received, the implementing party must receive a VAT number for the project by submitting request to the Public Revenue Office – Regional Office in Skopje.

The request is made by filling the form UJP – RDO available here: <http://www.ujp.gov.mk/mk/obraci/opis/16>

When applying for the VAT The implementing party should submit a copy of the Project Registration Certificate to the contractor.

The final outcome of this process is a Confirmation Letter from the Public Revenue Office for VAT Exemption.

## APPOINTING A TAX REPRESENTATIVE

Organisations outside of North Macedonia with no partners registered in the country can obtain VAT exemption, but only if they are registered for VAT and have an appointed tax representative. The following explanation is extracted from the Tax Administration announcement.

“As of January 1, 2024, a foreign entity that does not have a registered office or branch in the Republic of North Macedonia, but conducts taxable supplies of goods and services within the country, is required to register for Value Added Tax (VAT) purposes and appoint a tax representative. The foreign entity must register for VAT before commencing any taxable transactions in the country and may appoint only one tax representative. The appointment of a tax representative is done by submitting a VAT registration application along with the required documentation.

To qualify as a tax representative, the entity must have been registered for VAT purposes for at least 12 months prior to the application, must have no outstanding unpaid tax liabilities at the time of the application. If it is a legal entity, it should not be under bankruptcy or liquidation proceedings. If it is an individual, they must not have been convicted of a criminal offense.

The tax representative is responsible for calculating the VAT, submitting tax returns, paying the tax, paying interest in case of late payment, and maintaining records on behalf of the foreign entity. If the tax representation ceases for any reason, the foreign entity must appoint a new tax representative by submitting a new application. The tax representative is jointly liable for the VAT owed by the foreign entity. The Public Revenue Office maintains a registry of tax representatives.”

For more information see <http://www.ujp.gov.mk/mk/javnost/soopstenija/pogledni/979>

## HOW DO WE PUT THE VAT EXEMPTION INTO PRACTICE?

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### STEP 1 - ISSUING INVOICE WITHOUT VAT THROUGH THE TAX ADMINISTRATION SYSTEM

When purchasing goods or services in North Macedonia without VAT, the CSO making the purchase must first inform the supplier of the goods or services that the purchase will be made without VAT.

Then, before issuing an invoice with VAT exemption, **the supplier** must report the transaction electronically via e-Tax <https://etax-fl.ujp.gov.mk> to the Public Revenue Office. The supplier does this by submitting a Declaration for the supply of goods or services (see Annex 3 - [http://www.ujp.gov.mk/files/attachment/0000/0655/DDV-PEF-DO\\_Prijava\\_98-14\\_01.07.2014.pdf](http://www.ujp.gov.mk/files/attachment/0000/0655/DDV-PEF-DO_Prijava_98-14_01.07.2014.pdf)).

Based on the data submitted in the declaration (Declaration DDV-PEF-DO), the Public Revenue Office generates an electronic invoice without VAT (see Annex 4 DDV-FP-DO [http://www.ujp.gov.mk/files/attachment/0000/0654/DDV-FP-DO\\_Faktura\\_89-16\\_09.05.2016.pdf](http://www.ujp.gov.mk/files/attachment/0000/0654/DDV-FP-DO_Faktura_89-16_09.05.2016.pdf))

The forms created (Annex 3 and Annex 4) are then issued to the CSO making the purchase (“project implementing entity”), which should be the same as the named project implementer (CSO) stated in the Project Registration Certificate.

The supplier of the goods or services then receives an email notification regarding the generated invoice in the Public Revenue Office system. The supplier should then print it, stamp it and deliver it to the implementing party/CSO for payment.

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## STEP 2 - KEEPING RECORDS OF THE INVOICES WITHOUT VAT

Each of the CSOs implementing a project (Applicants, Co-applicants and sub-grantees) must keep records of all received invoices without VAT using the form DDV EPF (Annex 5 – DDV EPF [http://www.ujp.gov.mk/files/attachment/0000/0653/DDV-EPF\\_Evidencija\\_98-14\\_01.07.2014.pdf](http://www.ujp.gov.mk/files/attachment/0000/0653/DDV-EPF_Evidencija_98-14_01.07.2014.pdf))

This form should be completed and then submitted quarterly online via <http://etax-fl.ujp.gov.mk>.

This form is submitted by the person named in the Project referenced in Annex 2 or by the authorized accountant of the implementing party.



## USEFUL LINKS

Overview from the tax administration: <http://www.ujp.gov.mk/en/prebaruvanje/category/1085>

A guide for VAT exemption for projects implemented by foreign donors and IPA funds is available at: [http://www.ujp.gov.mk/files/attachment/0000/1168/08-830\\_1\\_Osloboduvanje\\_od\\_DDV\\_pri\\_realizacija\\_na\\_proekti\\_finansirani\\_od\\_stranski\\_donatori\\_i\\_IPA\\_fond.pdf](http://www.ujp.gov.mk/files/attachment/0000/1168/08-830_1_Osloboduvanje_od_DDV_pri_realizacija_na_proekti_finansirani_od_stranski_donatori_i_IPA_fond.pdf)

Request for registration in CDAD <https://www.sep.gov.mk/en/page/?id=34>

Form UJP -RDO ( <http://www.ujp.gov.mk/files/attachment/0000/0093/UJP-RDO.pdf>)

Form DDV-PEF-DO ([http://www.ujp.gov.mk/files/attachment/0000/0655/DDV-PEF-DO\\_Prijava\\_98-14\\_01.07.2014.pdf](http://www.ujp.gov.mk/files/attachment/0000/0655/DDV-PEF-DO_Prijava_98-14_01.07.2014.pdf))

Form DDV-FP-DO ([http://www.ujp.gov.mk/files/attachment/0000/0654/DDV-FP-DO\\_Faktura\\_89-16\\_09.05.2016.pdf](http://www.ujp.gov.mk/files/attachment/0000/0654/DDV-FP-DO_Faktura_89-16_09.05.2016.pdf))

Form DDV EPF ([http://www.ujp.gov.mk/files/attachment/0000/0653/DDV-EPF\\_Evidencija\\_98-14\\_01.07.2014.pdf](http://www.ujp.gov.mk/files/attachment/0000/0653/DDV-EPF_Evidencija_98-14_01.07.2014.pdf))

## OVERVIEW

Non-profit organisations in Serbia funded by EU IPA funds (which includes EU Civil Society Facility funds) are eligible for VAT exemption on purchases of goods and services purchased with the granted funds. While exemption is possible, it is normally not possible to claim a refund of VAT already incurred. VAT exemption status should therefore be obtained before any project transactions are made.

## WHO IS EXEMPT FROM VAT?

**Main Applicants:** if the main Applicant of a CSF grant is based in Serbia, they are eligible for VAT exemption on grant funds used to purchase goods and services. The main Applicant is obliged to register with the Tax Administration as the *Implementing Partner* for each specific donor-funded project. The main Applicant then becomes a 'Union Contractor', and on the basis of this status is entitled to VAT exemption.

**Co-applicants (main Applicant in Serbia):** If one or more co-applicants are based in Serbia, whether or not the main applicant is in Serbia, they are entitled to VAT exemption on grant funds spent on goods and services. If the main applicant is in Serbia, the main applicant registers first as Implementing Partner, and submits to the Tax Administration a list of Co-applicants and sub-grant beneficiaries, if any. On the basis of the information submitted by the main Applicant, a Co-applicant(s) is entitled to also become a Union Contractor and consequently is exempt from VAT on purchases made with Union funds.

However, a Co-applicant in Serbia where the main Applicant is also in Serbia is *not* entitled to award sub-grants to CSOs. If a Co-applicant who is *not* the designated Implementing Partner awards sub-grants, the recipient organisations are not entitled to VAT exemption. Only the designated Implementing Partner in Serbia can award sub-grants that are entitled to VAT exemption.

**Co-applicants (main Applicant outside Serbia):** If the main Applicant is not in Serbia, it is the responsibility of the Co-applicant based in Serbia to register the project. The Co-applicant based in Serbia (or one of them, if there are more than one), applies to the Tax Administration with proof that it is implementing a Union project. Based on this application, the Co-applicant becomes the Implementing Partner for the project in Serbia.

The designated Implementing Partner of a grant-funded project in Serbia is the only entity that can make a sub-grant to another organisation in Serbia *and for that sub-grant to be eligible for VAT exemption*. If a CSO who is a Co-applicant in the project, but is not the designated Implementing Partner, makes a sub-grant, that sub-grant is not entitled to VAT exemption.

For a Co-applicant to have the status of Implementing Partner, the following conditions must be met:

- It is part of consortium which is awarded the EU funded project;

- the project is coordinated by a CSO outside Serbia, either in the Western Balkan region, the rest of Europe or elsewhere; and,
- it has a contract with the Applicant, which confirms that it is an EU funded project, has proof that the CSO is engaged as ‘an Implementing Partner’ by the donor, and which defines amount of funds available for project implementation in Serbia.

**Sub-grantees (grant-maker in Serbia):** if the sub-grantee is in Serbia and receives a grant from a grant-maker in Serbia, the sub-grantee is eligible for VAT exemption on funds spent based on the status of the grant-making organisation. However, this is only the case if the grant-maker is registered with the Tax Administration as the Implementing Partner. If the grant-maker is not the Implementing Partner (e.g. if it is one of a several co-applicants in Serbia), the grant recipient organisation is not entitled to VAT exemption. It is therefore very important for FSTP projects that sub-grants in Serbia are awarded by the CSO registered as the Implementing Partner.

**Sub-grantees (grant-maker outside Serbia):** if the sub-grantee is in Serbia and receives a grant from a grant-maker outside Serbia, and the Applicant and Co-applicants are all outside the country, the sub-grantee is *not* eligible for VAT exemption. Therefore FSTP projects for which sub-grants are envisaged for Serbia must have either an Applicant or Co-applicant registered in Serbia.

**In-country activities without applicants, co-applicants or sub-grantees in country:** if activities are organised in Serbia which require purchase of goods or services in the country, but the organising CSOs are outside the country, VAT exemption is not possible. In this case, the organising CSO(s) need to request from their EU task managers and/or Contracts and Finance Departments that expenses for VAT in this case count as eligible expenses. This request is not automatic, and it should not be regarded as certain that it is possible for the cost of VAT to be counted as an eligible expense.

## LEGAL BASIS OF VAT EXEMPTION

The following are the legal acts and agreements that govern the VAT exemption for EU funded projects:

- Annex II of the General Conditions Applicable to European Union-Financed Grant Contracts for External Actions, Article 14.2 – Costs not considered eligible.
- Law on Value Added Tax ("Official Gazette of the Republic of Serbia" No. 84/04, 86/04, 61/05, 61/07, 93/12, 108/13, 68/14, 142/14, 83/15 , 5/16 , 108/16 , 7/17);
- Article 24, paragraph 1, item 16a defines that “Sale of goods and services carried out in conformity with donation agreements concluded with the State Union of Serbia and Montenegro or the Republic, which provide that tax is not to be paid from the funds obtained, in terms of the part financed by received monetary funds, unless a ratified international treaty provides otherwise.”
- Law on Confirmation of the Framework Agreement between the Government of the Republic of Serbia and the Commission of the European Communities on the rules for cooperation related to the financial assistance of the European Community to the Republic of Serbia within

the framework of the implementation of assistance according to the rules of the Instrument pre-accession assistance (IPA), which was ratified by the National Assembly of the Republic of Serbia on December 26, 2007 ("Official Gazette of the Republic of Serbia" No. 124/07 of December 26, 2007);

- The Law on Confirmation of the Framework Agreement between the Government of the Republic of Serbia and the European Commission on the rules for the implementation of financial assistance from the European Union to the Republic of Serbia within the framework of instruments for pre-accession assistance (IPA 2), which was ratified by the National Assembly of the Republic of Serbia on December 29, 2014 (" Official Gazette of the Republic of Serbia" No. 120/2012, 40/2015, 82/2015, 86/2015, 11/2016 and 21/2017);
- Law on Confirmation of the Financial Framework Partnership Agreement between the European Commission and the Republic of Serbia Represented by the Government of the Republic of Serbia on Specific Arrangements for Implementation of Union Financial Assistance to the Republic of Serbia Under the Instrument for Pre-Accession Assistance - IPA III (published in the "Official Gazette of Serbia - International Contracts", no. 6/2022 of 12 December 2022) for projects financed under IPA III.

Laws on Framework Agreements regulate exemption from VAT on exactly the same way, in the Article 28: Rules on taxes, customs duties and other fiscal charges, paragraph 2, which stipulates:

- "Union contractors shall be exempted from VAT for any service rendered and/or goods supplied and/or works executed under the Union contract. Goods supplied or services rendered or works executed by a contractor to the Union contractor shall also be exempted from VAT in so far that they are connected with the objectives and activities under the Union contract"
  - Union contractors and Union contracts are defined in the same Article 28; 'Union contractors' as natural and legal persons, executing a Union contract, including in particular, service/supplies/works contractors, grant beneficiaries (including twinning contractors, sub-grant beneficiaries), partners in a consortium or joint venture or co-beneficiaries or affiliated entities in grants, sub-grantees, sub-contractors. The term 'Union contract' means any contract, grant contract or agreement in direct or indirect management through which an activity is financed under IPA or any other Union instrument, including sub-grants or sub-contracts.
- The Rulebook on the method and procedure for obtaining VAT exemptions with the right to deduct previous tax (Published in the "Official Gazette of the Republic of Serbia" No. 120/2012, 40/2015, 82/2015, 86/2015, 11/2016 and 21 /2017)
  - Financial agreements signed between the Republic of Serbia and the European Commission for each program;
  - A Rulebook for the Application of the VAT Law can be found on the Tax Administration Web site: <https://www.purs.gov.rs/sr/o-nama/pravilnici/511/pravilnik-o-nacinu-i-postupku-ostvarivanja-poreskih-oslobodjenja-kod-pdv-sa-pravom-na-odbitak-prethodnog-poreza-.html>

## HOW TO REGISTER FOR VAT EXEMPTION

CSOs need to register with the Serbian Ministry of Finance as a VAT-exempt entity and provide documentation to prove their status as a non-profit organization. They will also need to provide documentation of the EU grant, such as the grant agreement and any relevant supporting documentation.

VAT exemption status is awarded based on the Project Contract, signed between the Lead Applicant/Beneficiary and the Contracting Authority. The Project Contract should reference the relevant bilateral or multilateral agreement based on which the Project is eligible for VAT exemption.

Once registered as a VAT-exempt entity, the CSO can then purchase goods and services without paying VAT, as long as the purchases are directly related to the EU-funded project. The CSO will need to maintain accurate records and documentation of all purchases made with EU grant funds and will likely be subject to audits and inspections to ensure compliance with the terms of the grant and the VAT exemption.

It is important to note that the VAT exemption may only apply to the portion of the purchase that is directly related to the EU-funded project and not the entire amount, so it is important to maintain accurate records of the cost breakdowns.

For all VAT exemption requests the responsible authority is the Central Tax Administration.

The request for exemption from payment of VAT is submitted exclusively electronically, through the portal eTaxes (ePorezi) with the help of a qualified certificate valid in the Republic of Serbia.

The responsible person of the user of donation, Final beneficiary or a foreign person is obliged to:

- Obtain a qualified electronic certificate with a card reader
- Authority to use electronic services (PEP form)

Authorisation for the use of electronic services can be obtained only for persons with Serbian citizenship and who are residents of the Republic of Serbia.

When the contracting party is a foreign legal entity, it is necessary to open a non-resident PIB (Tax identification number).

The manual for using the portal eTaxes for the purpose of VAT exemption is available on the following link

[https://www.purs.gov.rs/sw4i/download/files/box/\\_id\\_28488/Korisni%C4%8Dko%20uputstvo%20RefOsI%20Portal%20v3.pdf](https://www.purs.gov.rs/sw4i/download/files/box/_id_28488/Korisni%C4%8Dko%20uputstvo%20RefOsI%20Portal%20v3.pdf)

## HOW TO GET VAT EXEMPTION ON PROCUREMENT OF GOODS AND SERVICES

The contractor can be exempt from VAT for the procurement of services/goods/works exclusively:

- Before advance payment
- Before execution of services
- Before the delivery of goods/execution of works

- Before the end of the reporting period for which the contractor will submit request for payment.

All users of grant funds can be exempt from value added tax if they perform VAT exemption in time.

If the documentation is incorrect and the exemption from VAT is not performed, the FINAL BENEFICIARIES OF DONATIONS WILL PAY VALUE ADDED TAX.

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#### PROCEDURE FOR THE PREPARATION OF PPO PDV (VAT EXEMPTION) FORM

1. Registration of the contract - During the first exemption from VAT in the electronic application of the Tax Administration, the PPO-PDV issuer must register the contract, attach the scanned contract in PDF form (even when he/she has already performed VAT exemption and registered the contract in paper form).
2. Translation of the essential elements of the contract - The issuer of the PPO-PDV form encloses in the electronic application of the Tax Administration a translation of the essential elements of the contract in PDF form.
3. Pro-forma invoice / Invoice - Contractor (domestic / foreign person) – sends by e-mail a Pro-forma invoice / Invoice in PDF format to the issuer of the PPO-PDV form (i.e. the Final beneficiary / End recipient).
4. Preparation of a PPO-PDV form - The Final beneficiary of the project (i.e. the End recipient in terms of IPA) enters the data into the envisaged fields in the electronic application for the PPO-PDV form and encloses the pro forma invoice / Invoice and other necessary documentation received in PDF format from the contractor.
5. Certification of the PPO PDV form - The head office of the Tax Administration carries out the check of the submitted documentation entered into the electronic application and electronically certifies the PPO-PDV form.
6. Forwarding PPO-PDV form - The Final beneficiary of the project / foreign person / beneficiary of the grant keeps a copy of the certified PPO-PDV form, the second copy is forwarded by email to the taxpayer (supplier / service provider / works contractor).

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#### EACH PRO FORMA INVOICE / INVOICE MUST CONTAIN:

- Data about the supplier/ service provider / works contractor: name, address, telephone and tax identification number – PIB;
- Data about the buyer: name, address and tax identification number – PIB;
- Number of the Pro forma invoice / Invoice;
- Place and date of the issuance of the Pro forma invoice / Invoice;
- Description of goods / services / works, price, VAT amount as well as the total amount with VAT (with the exception of pro forma invoices related to the works where the VAT is not calculated in accordance with Article 10, paragraph 2, point 3 of the Law on VAT and in which VAT is not indicated);
- Signature and stamp (if the Pro forma invoice is valid without signature and stamp, it needs to be specified);

- If the Pro forma invoice is for the costs of the provision of services or the execution of works, the exact date/ period in which the activity will happen in the description of the service / works must be indicated (e.g. Organization of the seminar from 20.12.2022. to 26.12.2022. / period of realization of works from 01.05.2023 to 30.08.2023).

Pro forma invoice / Invoice must not contain any comments or notes such as "charging interest if the pro forma invoice / Invoice is not paid within the specified deadline" etc.

Contact person for providing support to the final beneficiaries / end recipients and contractors related to the exemption of value added tax and customs: **Nevenka Tripković**, Telephone number: + 381 11 765 2635, E-mail: [nevenka.tripkovic@mfin.gov.rs](mailto:nevenka.tripkovic@mfin.gov.rs) and [jpapdv@mfin.gov.rs](mailto:jpapdv@mfin.gov.rs)

### PPO-PDV Form

The screenshot shows a web-based form for PPO-PDV. At the top, there are navigation tabs: 'Избор пријаве', 'Упит стања', 'Зверена', 'Пренос овлашћења', and 'Изабери пореског обвезника'. The main header displays '109829818 DANIELE BAGGIO'. The form is divided into several sections:

- Подаци о пројекту:** Includes a dropdown for 'Број пројекта'.
- Подаци о обвезнику:** Includes fields for 'Назив обвезника', 'Адреса обвезника', 'ПИБ Обвезника', and 'Порески дужник'. A red button 'Освежи податке' is located to the right.
- Подаци о промету:** Includes fields for 'Промет', 'Вредност промета', 'Валута промета', and 'Број преданућа'.
- Подаци о подносиоцу:** Includes fields for 'Назив подносиоца' (DANIELE BAGGIO), 'Адреса подносиоца', 'ПИБ подносиоца' (109829818), 'Емаил подносиоца', 'Телефон подносиоца', and 'Број лиценце'. It also has a date picker for 'Датум потраге' and a file upload area with the text 'Choose File No file chosen'.

At the bottom, there are two red buttons: 'Сачувај' (Save) and 'Изађи' (Exit).

## TÜRKIYE

### OVERVIEW

VAT exemption applies for all CSOs and other entities receiving grants from IPA III programmes, including the Civil Society Facility (CSF). The process is in two stages. First, the CSO applies to a Tax Administration for exemption status. Once the status is awarded, suppliers of goods and services can issue an invoice free of VAT if presented with the tax certificate.

The tax administration to which a CSO applies for an exemption certificate varies depending on the size of the grant. In general, this means that for large grants, CSOs apply to the central tax administration, while for sub-grants, CSOs apply to their local provincial tax office (if there is one).

In some cases, the EU notifies projects that they are *not* obliged to register for VAT exemption, and that their expenses including VAT are eligible expenses. This special status is rare, and will be informed to the grantee in a letter from the EU Delegation.

Reimbursement of VAT expenses already incurred is also possible through a special procedure.

### WHO IS ELIGIBLE FOR VAT EXEMPTION?

**Main Applicants:** if the main Applicant of a CSF grant is based in Türkiye, they are eligible for VAT exemption on grant funds used to purchase goods and services. The main Applicant is obliged to register with the Tax Administration as the *implementing partner* for each specific donor-funded project. The main Applicant then becomes a 'Union Contractor', and on the basis of this status is entitled to VAT exemption.

**Co-applicants (main Applicant in Türkiye):** If one or more co-applicants are based in Türkiye, whether or not the main applicant is in Türkiye, they are entitled to VAT exemption on grant funds spent on goods and services. If the main Applicant is also in Türkiye, the main Applicant leads the registration and includes a list of Co-applicants and sub-grant beneficiaries (if known). On the basis of the information submitted by the main Applicant, the Co-applicant(s) is/are entitled to be a Union Contractor, and consequently exempt from VAT on purchases made with Union funds.

**Co-applicants (main Applicant outside Türkiye):** If the main applicant is not in Türkiye, it is the responsibility of the Co-applicant based in Türkiye to register the project. The Co-applicant based in Türkiye (or one of them, if there are more than one), applies to the Tax Administration with proof that it is implementing a Union project. Based on this application, the Co-applicant becomes the *implementing partner* for the project in Türkiye.

**Sub-grantees (grant-maker in Türkiye):** if the sub-grantee is in Türkiye and receives a grant from a grant-maker in Türkiye, the sub-grantee is eligible for VAT exemption on funds spent based on the status of the grant-making organisation. Where the sub-grantee was not included in the original grant contract, the sub-grantee has to apply separately. The sub-grantee applies with a copy of the main



grant agreement and the grant agreement between the grant-provider (FSTP provider) and sub-grantee.

**Sub-grantees (grant-maker outside Türkiye):** if the sub-grantee is in Türkiye and receives a grant from a grant-maker outside Türkiye, and the Applicant and Co-applicants are all outside the country, the sub-grantee is eligible for VAT exemption. The sub-grantee must apply for exemption status with copies of the main grant agreement (between the EU and the main Applicant) and the sub-grant agreement (between the FSTP provider and the sub-grantee).

**In-country activities without applicants, co-applicants or sub-grantees in country:** if activities are organised in Türkiye which require purchase of goods or services in the country, but the organising CSOs are all outside the country, VAT exemption is possible, although the procedure is more complicated.

## LEGAL BASIS FOR VAT EXEMPTION

The reference documents are:

- IPA III Financial Framework Partnership Agreement<sup>§</sup> (Article 28 Rules on taxes, customs duties and other fiscal charges)
- IPA III Framework Agreement General Communiqué No.1 which determines the procedures and principles regarding tax exemptions<sup>\*\*</sup>.

As written in Article 28: Rules on taxes, customs duties and other fiscal charges

1. Except where otherwise provided for in a sectoral agreement or a financing agreement, taxes, duties and charges having equivalent effect shall not be eligible under IPA III programmes or any other Union instrument. This rule of exemption on taxes, customs duties and other financial charges shall also apply to co-financing provided by the IPA III beneficiary, or other co-financing entities, recipients of IPA III financial assistance received by natural or legal persons or any other financing under other Union instruments.
2. The following provisions shall apply:
  - a) for the purposes of this Agreement, the term ‘*Union contractor*’ shall be construed as natural and legal persons, executing a Union contract. The term ‘*Union contractor*’ shall include in particular, service/supplies/works contractors, grant beneficiaries (including twinning contractors, sub-grant beneficiaries), partners in a consortium or joint venture or co-beneficiaries or affiliated entities in grants, sub-grantees, contractors, international organisations, including their specialised agencies or development agencies, and RTAs under twinning contracts as well as contractors under the Technical assistance and Information exchange instrument (TAIEX);

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<sup>§</sup> <https://www.resmigazete.gov.tr/eskiler/2022/12/20221213-6.pdf>

<sup>\*\*</sup> <https://www.resmigazete.gov.tr/eskiler/2023/04/20230424-3.htm>

- b) the term '*Union contract*' means any contract, grant contract or agreement in direct or indirect management through which an activity is financed under IPA III or any other Union instrument, including sub-grants. The term '*Union contract*' shall also cover provision of assistance under TAEX and participation in Union programmes;
- c) Union contractors shall be exempted from VAT for any service rendered or goods supplied or works executed under the Union contract. Goods supplied or services rendered or works executed by a contractor to the Union contractor shall also be exempted from VAT in so far that they are connected with the objectives and activities under the Union contract;

*The procedures and principles of IPA III Financial Framework Partnership Agreement regarding tax exemptions have been determined by the IPA II Framework Agreement General Communiqué No.1. According to the Communiqué.*

*Union contractors should apply to the relevant authorities according to the criteria identified under Article 4.2.2 of the Communiqué.*

## HOW TO OBTAIN VAT EXEMPTION STATUS

The text below is taken from the official EU guide to VAT exemption in Türkiye. In this case, CSOs who are grantees of EU Civil Society Facility funding are 'Union Contractors'.

### **4.2.2. Benefiting from the Exemption with the Value Added Tax Exemption Certificate**

#### **4.2.2.1. Authority to apply for VAT Exemption Certificate**

- Union contractors who reside in provinces where the Tax Office Directorate is established (ANNEX-1/a) and whose budget share is less than 4 (four) million Turkish Liras (including 4 million Turkish Liras) in the Union Agreement they have signed, should apply to the Tax Office Directorate (the taxpayer of the Large Taxpayers Tax Office Directorate) in that province.
- Union contractors who reside in provinces where the Tax Office Directorate is established (ANNEX-1/a) and whose budget share in the Union Agreement is more than 4 (Four) million Turkish Liras in the Union Agreement they have signed, should apply to the Revenue Administration.
- Union contractors who reside in provinces where the Tax Office Directorate is not established (ANNEX-1/b) and whose budget share is less than 2 (two) million Turkish Liras (including 2 million Turkish Liras) in the Union Agreement they have signed, should apply to the Revenue Office Revenue Directorate in that province.
- Union contractors who reside in provinces where the Tax Office Directorate is not established (ANNEX-1/b) and whose budget share is more than 2 (two) million Turkish Liras in the Union Agreement they have signed, should apply to the Revenue Administration.
- Real person Union Contractors (including Resident Twinning Consultants) who do not have a residence in Turkey and do not have any tax liability (except for non-permanent tax liability) and legal person Union Contractors who do not have a workplace in Turkey, regardless of the budget allocated to them in the Union Agreements they sign, should apply to the Revenue Administration.

Union contractors should submit the required documents for the VAT Exemption Certificate Application identified under Article 4.2.2.3 of the Communiqué to the relevant authorities:

#### 4.2.2.3. Documents Required for VAT Exemption Certificate Application

A copy of each of the documents listed below that should be signed and approved with the phrase "Same as the Original" by the Contracting Authority or if the Union Contractor is a natural person with the name, surname and title of the person approving it, or if the Union Contractor is a legal person by the official of the institution:

- Union Contract signed with the Contracting Authority,
- In case there are attachments: commencement and termination date, amendment procedures, budget, budget distribution etc. of the Union Contract,
- In case there is a notification or administrative order etc. for the date of employment in the Union Contract, the document stating the date of commencement,
- If the Union Contract has expired as of the date of application, but the period of the contract been extended with an addendum or administrative order etc., the relevant documents.

In addition to the required documents;

1. Union contractors should fill petition for request for value added tax exemption certificate (ANNEX-2/a, ANNEX-2/b, ANNEX-2c) (Ek-2/a, Ek-2/b, Ek-2c)
2. Union contractors also have to submit their request, along with an information form ANNEX-3) (Ek-3) to be signed both by the Contracting Authority and the Union Contractor<sup>††</sup>.

Please see the "Turkey - European Union Pre-Accession Instrument (IPA III) Framework Agreement General Communiqué"<sup>††</sup> tax exemptions for EU-funded projects on the up-to-date applicable legislation and relevant forms.

## HOW TO GET VAT EXEMPTION ON PROCUREMENT OF GOODS AND SERVICES

VAT **exemption** is put into practice by taking the following steps:

- a. Each eligible CSO receives a VAT exemption certificate
- b. When making a purchase of goods or services, the CSO must submit the VAT exemption certificate to the provider before the invoice is issued.
- c. The provider of the goods or services is then able to issue an invoice without VAT.
- d. The CSO then pays the invoice.

**Reimbursement** of already-paid VAT is achieved by:

- a. First applying for and receiving a VAT exemption certificate

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<sup>††</sup> In cases where the Contracting Authority is abroad, the part of the Information Form to be approved by the Contracting Authority can be left blank.

<sup>††</sup> <https://www.resmigazete.gov.tr/eskiler/2023/04/20230424-3.htm>

- b. prepare a petition, filling in Annex 13 (Ek-13) for reimbursement in the Turkey - European Union Pre-Accession Instrument (IPA II) Framework Agreement General Declaration (In Turkish, there is no English version of the document)<sup>§§</sup>
- c. In addition to the petition and Annex 13 (Ek-13), all related invoices (original copies or copies of invoices with the “same as the original” stamp should be submitted to the related tax office directorate.

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<sup>§§</sup> [https://www.gib.gov.tr/sites/default/files/uluslararasi\\_mevzuat/1\\_SIRA\\_NOLU\\_KONSOLIDE\\_GENEL\\_TEBLIGI.pdf](https://www.gib.gov.tr/sites/default/files/uluslararasi_mevzuat/1_SIRA_NOLU_KONSOLIDE_GENEL_TEBLIGI.pdf)

*EU TACSO 3 - Technical Assistance to Civil Society Organisations (EU TACSO 3) in the Western Balkans and Türkiye is a regional project funded by the European Union (EU) offering services to improve capacities and strengthen the role of civil society organizations (CSOs) in this region. Through its activities, the project seeks to enhance the capacity of CSOs to take part in democratic processes actively and to stimulate an enabling environment for civil society and pluralistic media development. For more information on the EU TACSO 3 please check [www.tacsof.eu](http://www.tacsof.eu).*

