Implementation Tips *for* USAID Partners

Sharing Resources and Knowledge Among the Global CSO Community

Financial Management 6 | 2018

Definitions

Value Added Tax (VAT)—Tax levied on the purchase of goods and services, similar to sales tax in the U.S.

References

USAID Guidance on Foreign Tax Reporting
Mandatory Reference for ADS 302

In Your Agreement

USAID partners will find the "Reporting Foreign Tax" clause in the standard provisions in their agreement in the section called Reporting Host Government Taxes.

Foreign Tax (VAT) Reporting

Q. Is our organization exempt from paying VAT and customs duties on goods and services purchased with USG funds? And, what are the Foreign Tax Reporting requirements?

A. Organizations implementing U.S. Government (USG)-funded development projects are exempt from certain taxes and duties imposed by the government of the country where they are working. Exemptions cover both prime recipients as well as subrecipients.

Specific exemptions and the process for requesting reimbursements of taxes paid are outlined separately for each country in bilateral agreements between the USG and host governments. Below are several common exemptions, as well as taxes you may be required to pay. You will need to find out what exemptions and requirements are relevant in each of the countries in which your organization is working.

The following provides examples of the kind of information to report, discusses the requirements of the USAID Foreign Tax Report (due from USAID recipients every year on April 16) and offers suggestions for tracking your tax payments and reimbursements to make reporting easy.

Taxes Exempt in Most Countries

- Value Added Tax (VAT) levied on commodities purchased in-country.
- Customs duties levied on commodities imported into the country for use in USG-funded projects.

Taxes Not Exempt

- VAT or sales tax levied on items purchased outside of the host country where you are implementing your USG-funded program. For example, if an organization purchases commodities in South Africa for use on its USG-funded project being implemented in Mozambique, it would not be exempt from paying VAT in South Africa.
- Organizations with headquarters (HQ) outside of the host country, including those in the U.S. or Europe, are not exempt from VAT or sales taxes in their home country, whether the items purchased are used in the HQ office or in the field.

The Foreign Tax Report must be submitted by all organizations receiving USAID funding by April 16 each year.

Other Taxes Levied by Host Governments

Though the USG seeks exemptions on all taxes levied against foreign assistance projects by host governments, there are several categories of taxes that you may be required to pay, for example:

- Payroll taxes, and
- VAT on projects with no USG funding.

Be sure to check with the in-country mission and other donors for details about what taxes your organization may be required to pay.

Country Specifics

Each country negotiates its own bilateral agreement with the U.S., which includes provisions regarding the taxation of U.S. foreign assistance.

These provisions typically address what taxes are exempt and how organizations implementing USG-funded programs can receive reimbursements for any taxes paid. Exemptions and reimbursement procedures can vary widely from country to country, but it is your responsibility to check with the Mission regarding the rules in the country where you are working.

Work with the in-country USG team to answer the following questions:

- What taxes am I exempt from paying?
- What taxes, if any, am I required to pay?
- What is the process for obtaining an exemption or reimbursement?

The process for obtaining an exemption or reimbursement varies by country. Some countries provide VAT exemption letters to show vendors at the time of the purchase. Others require that you pay the VAT and later request reimbursement, either through the Revenue Authority or through the local USAID Mission or U.S. Embassy.

Where the recipient has a means to obtain an exemption or a refund of the taxes and does not take reasonable steps to obtain the exemption or refund, the paid taxes will not be an allowable cost.

Contact your in-country team or your Contracting Officer's Representative/Agreement Officer's Representative (COR/AOR) for further guidance.

Foreign Tax Reporting

A Foreign Tax Report must be submitted by all organizations receiving USAID funding by April 16 each year. All organizations receiving USAID funds must comply with the foreign tax reporting requirements established by the U.S. Embassy in that country.

Where the recipient has a means to obtain an exemption or a refund of the taxes and does not take reasonable steps to obtain the exemption or refund, the paid taxes will not be an allowable cost.

The purposes of the Foreign Tax Report are to ensure that U.S. foreign assistance funds are being used for their intended purposes and not being taxed and to track whether or not foreign governments are complying with the terms of their bilateral agreements.

Because exemptions and reimbursement procedures vary from country to country, check with the in-country team or U.S. Embassy in the country in which you are working.

The purpose of The Foreign Tax Report is to ensure that U.S. foreign assistance is not being taxed and, therefore, that the funds are used for their intended purposes. The USG uses these reports to track whether or not foreign governments are complying with the terms of their bilateral agreements.

Who Must Report

Any organization that purchased US$500 or more worth of commodities with USG funds or paid any customs duties in the country where it is operating during the prior fiscal year is required to submit an annual report on foreign taxes. This report is required even if you did not pay any taxes on those items during the reporting period!

All subrecipients under your award with in-country purchases of US$500 or more must also track taxes paid and reimbursements received. You must incorporate subrecipient data directly into your report.

What Taxes Do I Report?

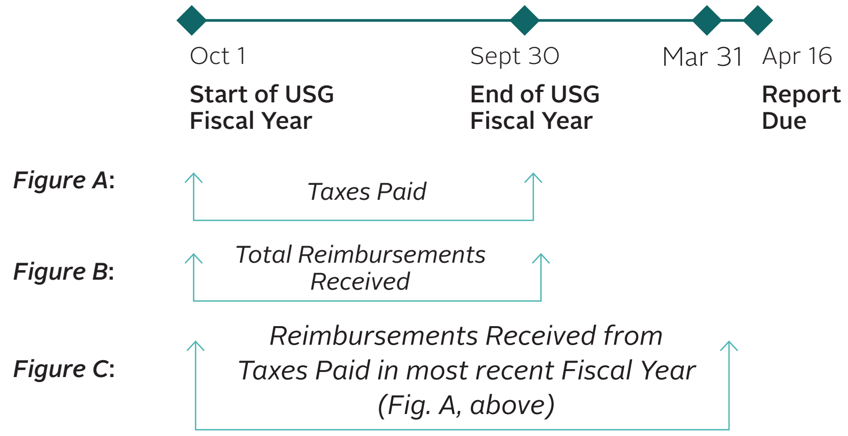
- The tax was paid to the government in the country where you are implementing.
- The transaction was US$500 or more (not including the VAT).
- The transaction related to a commodity as defined as supplies, materials, goods or equipment.
- The purchase related to your USG-funded project. (Report the purchase regardless of whether the specific purchase was made with USG funds or was part of cost share, as long as it was a legitimate part of the project).

When is the Report Due, and What Timeframe should it Cover?

The Foreign Tax Report is due annually each year on April 16. You are required to report the following three figures:

- **Figure A.** *Taxes paid to the host government during the previous fiscal year*. This includes VAT and customs duties.
- **Figure B.** *All reimbursements received during the previous fiscal year*, regardless of when the original tax was paid.
- **Figure C.** *Reimbursements received* from the taxes paid *through March 31 of the fiscal year* being reported on.

To simplify your annual reporting, develop a process for tracking VAT and customs duties paid, as well as for requesting and receiving reimbursements from the host government.



Where Do I Submit My Report, and What Is the Format?

Submit the report to the office listed in your Cooperative Agreement under the Reporting of Foreign Taxes standard clause or as directed by your funding agency (usually the U.S. Embassy or your funding agency's in-country financial management office). Also send a copy of your report to your AOTR/COTR.

There is no standard form for the report. However, the report must contain the following:

- Your organization's name;
- Contact name with phone, fax and e-mail;
- Your agreement number(s);
- Amount of foreign taxes assessed by a foreign government on purchases valued at US$500 or more financed with USG funds under the agreement(s) during the prior fiscal year. If you work in multiple countries, list each country separately. However, if you work on multiple projects within one country, you can report on the total for each country. Only foreign taxes assessed by the foreign government in the country in which you are working are to be reported. Foreign taxes assessed by a third-party foreign government are not to be reported; and
- Report all reimbursements you have received during the prior fiscal year regardless of when the foreign tax was assessed. Also, provide a separate figure giving the total of any reimbursements of taxes assessed during the fiscal year you are reporting on that you have received through March 31.

Example

Organization: My CSO

Contact: Jane Smith

Phone: +255-555-5555.
Fax: +255-555-5556.
E-mail: jane@myngo.org

Agreement Number: XYZ-123456

Country	Taxes Assessed during FY 18	Taxes Assessed during FY 18	Reimbursements Received on FY 18 Taxes through Mar 31
Mozambique	US$0	US$0	US$0
Tanzania	US$1,000	US$1,000	US$1,000

In this example, the organization is operating in two countries: Mozambique and Tanzania. The amounts in this table are summaries by country and are not broken down by project or subrecipient. During FY16, the Mozambican Government did not assess any taxes on the prime recipient (or subrecipients, if any). However, it did reimburse the organization US$500 for taxes assessed prior to FY16. During FY16, the Tanzanian Government assessed the organization US$1,000 in taxes but reimbursed the organization in full by March 31, 2017. A separate Foreign Tax Report must be submitted for each country (Tanzania and Mozambique) as directed by the funding agency.

Tracking VAT and Duty Payments and Reimbursements

Your organization should develop a process for tracking VAT and customs duties paid, as well as for requesting and receiving reimbursements from the host government. Establishing such a process greatly simplifies your annual reporting and helps ensure your funds go toward providing services to beneficiaries.

Consider the following strategies for tracking your VAT payments and reimbursements:

- ***Develop a list of exemptions and required taxes***, so everyone in your organization involved with procurements is aware of the policy. Share this with subrecipients as well.
- ***Create a special code in your accounting system for tracking all payments of exempt taxes***. Use this code only for exempt taxes—not for legitimate taxes paid.
- ***Create a special code in your system for tracking incoming tax reimbursement payments from the host government***. Make sure you can tie the reimbursements received back to the original accounting entry that recorded the taxes being paid. This will make it easy to identify which reimbursements have and have not been received.

For More Information

For this or other issues of *Implementation Tips*, please visit www.NGOConnect.net. The Web site is a dynamic and interactive portal dedicated to connecting and strengthening CSOs, networks and CSO support organizations worldwide.

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- ***Establish a log that tracks the tax payment and reimbursement process***. This should document each tax payment, reimbursement request and payment received. You may also want to make sure you have a policy for keeping copies of receipts and reimbursement requests sent to the host government or USG office, as applicable (see the example below). Customize your process, so it fits in with the host government and USG in-country requirements regarding submitting requests and expected turn-around time for tax reimbursements.
- Since your subrecipients may also have purchases of commodities or other expenditures covered by these provisions, ***work with subrecipients to submit their reports to you prior to the April 16 deadline***, so you will have sufficient time to incorporate their data into your report. Note that their reports must also include reimbursements through March 31, so their deadline would need to be sometime between April 1 and April 15.

Example VAT Tracking Log

Below is an example of a log for tracking your VAT payments, reimbursement requests and payments received. You can create a log like this for each country in which you operate, and the log can include all requests related to that country, even from different projects. You may also want to use this log to track VAT payments for transactions under US$500 for auditing purposes, though you will not include these in your USAID-required Foreign Tax Report.

** You may want to track your payments and reimbursements in local currency*

Acct Sys Ref #	Date	Vendor	Description	Transaction Value (Pre-VAT)*	VAT*	Project	Date Reimb. Requested	Date Reimb. Received
210	23-Oct-15	ABC Supplies	Office furniture	$1,200	$120	A	31-Oct-15	15-Jan-16
223	15-Jan-16	DEF Imports	HBC Kits	$1,000	$100	B	31-Jan-16	
235	02-Feb-16	GHI Computers	Computers	$2,000	$200	C		
236	02-Feb-16	JKL Inc.	Printer	$500	$50	D		