

VAT LEGISLATION AND PROCEDURES RELATING TO AID PROJECTS

VAT Office Policy Statement [VP018]

(Issued February 2002)

Introduction

The VAT Office has recently had discussions with aid donor representatives and advised them of the correct VAT procedures relating to their projects. This policy statement provides a summary of those discussions and also reviews the recent amendment to the Value Added Tax Act 1998 ("the VAT Act") relating to the term "approved aid project".

Policy Summary

- Supplies of goods or services made directly to an aid donor or the administering government department are VAT zero-rated if they are made in respect of an approved aid project.
- Offshore and local contractors making supplies to aid projects in Vanuatu are required to register for VAT if the value of their supplies exceeds 4 million vatu in a 12-month period. (This means the contractors are entitled to claim back any VAT paid relating to business purchases in their VAT returns.)
- To qualify as an "approved aid project", the project Memorandum of Understanding must include a statement that zero-rating applies under clause 7 of the Third Schedule of the VAT Act.

Legislation

Clause 7 of the Third Schedule of the VAT Act provides that a supply of goods or services is zero-rated for VAT purposes if that supply is made:

- (a) in respect of an "approved aid project", and
- (b) directly to a Diplomatic Mission of a foreign state, an international aid organisation, or the Government of Vanuatu.

Clause 8 of the Third Schedule of the Value Added Tax Act 1998 defines the term "approved aid project". This clause was amended by the Value Added Tax (Amendment) Act No.28 of 2001, it reads:

For the purposes of this Schedule the term "approved aid project" means an aid project for which the project Memorandum of Understanding, or other like document, approved by the Council of Ministers and lodged with the Minister contains specific provision for zero-rating under clause 7 of this Schedule.

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It is important to note that clause 7 extends the zero-rating only to supplies made directly to the aid donor or administrating government department. This will generally cover only the services supplied by the primary contractor to the donor or government department.

Memorandum of Understanding (MOU)

The amendment to clause 8 of the Third Schedule means that projects, which the government considers should receive the zero-rating concession, must include a statement in the MOU along the following lines:

Supplies of goods or services made in respect of this project that are made directly to the aid donor, aid organisation or Government of Vanuatu are zero-rated under the provisions of clause 7 of the Third Schedule of the Value Added Tax Act of 1998.

The amendment to clause 8 has effect from 1 January 2002, this means that the VAT Office requires all new project MOUs to include a statement such as the one above before supplies made to the donor or administrating government department can be zero-rated.

Wherever possible the MOUs for projects set up prior to 1 January 2002 should be amended to include the above statement, however if it is not possible to vary the MOU, the project administrator should discuss the matter with the VAT Office.

VAT Registration Requirements

Primary contractors (who are often contracted from overseas to undertake the project) are liable to register for VAT if the value of their services exceeds 4 million vatu in a 12-month period. Once registered, the company is required to file monthly returns.

In the past there has been some confusion relating to local purchases made by primary contractors working on aid projects. The VAT Act does not allow zero-rating for such purchases, however as a registered person, the primary contractor is entitled to claim back any VAT paid on project purchases in their VAT returns.

Project administrators should ensure that they retain all tax invoices for project purchases they wish to claim, as these will be subject to checks by the VAT Office.

Enquiries

Any enquiries on the VAT treatment of aid projects should be directed to the VAT Office.