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ANNEX 12 Information on Treatment of Taxes and Tax Exemption Under Eco-Future Grant Contracts

1. Legal framework

Taxes concerned by this annex are **indirect taxes** such as value added taxes, customs and import duties, other fiscal charges and duties. Taxes, including VAT are eligible provided the beneficiary(ies) (or, where applicable, its partners and affiliated entity(ies)) can show they cannot reclaim them and cannot obtain a Tax Exemption under IPAIII Framework Agreement of 14 December 2022 between the Republic of Türkiye and the EU Commission.

The grant beneficiaries are strongly advised to apply for a Tax Exemption from their relevant tax authorities by submitting their application immediately and no later than 15 days after the grant contract is countersigned by both parties. The application process is briefly explained under point 3 of this guideline.

In the case that the exemption is NOT granted by the authorities in 6 months following application, no reply is received at all ,the beneficiary can prove that they have taken all necessary measures to obtain the exemption but have failed (written correspondence ,no errors in application forms etc.) and also prove that they cannot reclaim these taxes back , indirect taxes may be accepted as eligible costs.

However, the no-profit rule must be obeyed in all cases. A beneficiary(or, where applicable, its partners and /or affiliated entity(ies)) that is not required to submit such proof must therefore certify that the taxes paid by the funding under this grant contract or covered by its share of co-financing will ultimately not be recovered from the local tax authorities.

The assessment of eligibility regarding indirect taxes will be done by the Contracting Authority (UNDP) on a case-by-case basis.

No additional budget will be allocated to cost of these taxes, should the grant beneficiary fail to obtain a Tax Exemption. Therefore, it is important that the beneficiary(ies) treat the application process with due diligence and timely manner.

It is the beneficiaries' obligation to familiarise itself with the applicable tax regime, by addressing the competent authorities of the relevant administration in the country in which the beneficiary is established.

As the grant contracts will be issued in USD, it is possible that the Exemptions are issued in EURO against the USD value of the contracts. The final assessment of the currency of issuance lays with the tax authorities.

How can the beneficiary show that it is not tax-exempted and that it cannot recover taxes?

The beneficiary(ies) (or, where applicable, its affiliated entity(ies)) must show that it is not tax exempted and that it cannot recover taxes under the applicable national law. The



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beneficiary(ies) (or, where applicable, its affiliated entity(ies)) will have to *prove that it has undertaken the necessary steps to obtain an exemption or the recovery of paid taxes vis-à-vis the relevant authorities.*

This evidence may take the following forms:

- An official document from the competent tax authority stating that the entity is not entitled to reclaim taxes incurred for the activities in question (and that this does not depend on the simple fact that it does not wish to be subject to VAT). This official document may be a specific declaration or a refused claim for reimbursement by the competent tax authority.
- The absence of a reply by the competent tax authority within the legal deadline set by the applicable national law to a request submitted in due time (or 6 months in the absence of a legal deadline).
- The beneficiary(ies) (or, where applicable, its affiliated entity(ies)) shall provide the evidence at the latest when submitting the final report.

2. How to apply for the tax exemption

The Grant Beneficiaries who are NGO/CSO's registered in Türkiye should apply to the local tax offices (Defterdarlık) no later than 15 days after the grant contract is countersigned by both parties for issuance of a Tax Exemption. The legal basis for this exemption shall be the IPAIII Framework Agreement of 14 December 2022 agreement between Republic of Türkiye and the EU Commission. The procedures of application and the annexes/documents to be filled can be found in the below links:

- IPAIII Communiqué and its rules of application:
https://www.gib.gov.tr/sites/default/files/uluslararasi_mevzuat/cerceve_anlasmalari/IPA_III/IPA_III_Gen_Teb.pdf
- Annexes of IPA III Communiqué and forms to be filled in the application and during implementation:
- [IPA_III_Gen_Teb_ek.pdf](#)

As per section 4.2.2.3 of the IPA III Communiqué, overview of the forms/documents to be submitted are:

- a. Application request letter/petition: In the letter/ petition, the request for Tax Exemption Certificate will be clearly stated and signed by the Grant Beneficiary by writing the date, name and surname and title, and the contact information (address, telephone, fax and



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e-mail) and the documents attached to the petition will be clearly written in the "Appendices" section. (Annex-2/a, Annex-2/b, Annex-2/c)

- b.** The Grant contract and its annexes: The grant beneficiary shall submit copies of:
- c.** Contract signed with the Contracting Authority and its annexes (description of project, budget etc.)

Where the Contract refers to a notice of commencement of work or an administrative order or similar document for the date of commencement of employment, a document specifying the date of commencement of the project.

- Original of the Information Form-Annex 3 (Bilgi formu- EK-3): The grant beneficiary shall be filled in and submitted to UNDP, a copy of the information form, which is Annex -3 of the IPAIII Communique. UNDP will complement this form, sign and return it to the beneficiary for their signature. The beneficiary will add the ORIGINAL form to the VAT exemption application package.

Following the application, the relevant tax authorities are expected to reach out to the grant beneficiaries on their application, request any missing information, if any, and issue the Exemption Certificate. The timing of this action is stated as 30 days in the IPAIII Communique but may be longer, depending on the relative tax authority and needs to be followed up by the beneficiary itself. UNDP cannot assume any application or follow-up on behalf of its grant beneficiaries.

3. How to use the tax exemption

The usage of the exemption is explained in section 4.2.2.6 of the IPA III Communique. Beneficiaries are required to familiarize themselves with the requirements of usage of the Exemption. The main points of considerations in usage of the Exemption may be summarized as:

- a.** Referring to the VAT exemption wording and date in every invoice as explained in the Communiques
- b.** Issuing specific Procurement contracts for purchases above TRY 15.000 (VAT excluded)
- c.** Keeping a register of the purchases done with exemption by using Annex-8 IPA purchases register. This register shall be submitted to the approval of the Contracting Authority (UNDP) every calendar year.

For these mentioned provisions, all other provisions and specific information refer to section 4.2.2.6 and preceding sections of the IPA III Communique.



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Please note that this note is prepared for information purposes only and information regarding tax exemptions may be amended or revised by tax authorities of the Republic of Türkiye.

Any technical questions on taxes, VAT, exemptions, refunds etc. shall be made to the relevant tax authorities as UNDP cannot provide any opinion on behalf of tax authorities.

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