**VALUE ADDED TAX (VAT) EXEMPTION FOR**

**PROJECTS FINANCED FROM**

**INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA)**

* **Decentralised/indirect management -**

**MARCH 2024**

**LEGAL BASIS FOR VALUE ADDED TAX EXEMPTION**

Procedure for Value Added Tax (VAT) exemption for projects financed by European Union through the Instrument for Pre-Accession Assistance – IPA is formed in relation to:

1. Law on Value Added Tax ("Official Gazette of the Republic of Serbia” No. 84/2004, 86/2004, 61/2005, 61/2007, 93/2012,108/2013, 68/2014,142/2014, 83/2015, 5/2016, 108/2016, 7/2017, 113/2017, 13/2018, 30/2018, 72/2019, 8/2020, 153/2020 and 138/2022);
2. Rulebook on Value Added Tax (“Official Gazette of the Republic of Serbia” No. 37/21, 64/21) which entered into force on July 1st, 2021 instead of Rulebook on the Method and Procedure for Obtaining VAT Exemptions with the Right to Deduct the Previous Tax (Published in the “Official Gazette of the Republic of Serbia” No. 120/2012, 40/2015, 82/2015, 86/2015,11/2016, 21/2017, 44/2018, 48/2018, 62/2018, 104/2018, 16/2019, 80/2019 and159/2020);
3. Law on Ratification of Framework Agreement between the Government of the Republic of Serbia and the Commission of the European Communities on the Rules for Co-operation concerning EC-Financial Assistance to the Republic of Serbia in the Framework of the implementation of the Assistance under the Instrument for Pre – Accession Assistance (IPA), which was ratified by the National Assembly on 26 December 2007 ("Official Gazette of the Republic of Serbia” No.124/07 dated 26 December 2007);
4. Law on Ratification of Framework Agreement between the Republic of Serbia and the European Commission on the Arrangements for Implementation of Union Financial Assistance to the Republic of Serbia under the Instrument for Pre-Accession Assistance (IPA II), which was ratified by the National Assembly on 29 December 2014 ("Official Gazette of the Republic of Serbia” No.19 dated 29 December 2014);
5. Law on Ratification of Framwork Agreement and the European Commission on the arrangements for implementation of Union financial assistance tot the Republic of Serbia under the Instrument for Pre-Accession Assistance (IPA III), which was ratified by the National Assembly on 9 December 2022 ("Official Gazette of the Republic of Serbia” No. 6 dated 12 December 2022);
6. Financial Agreements signed between the Republic of Serbia and the European Commission for each program.

**RULEBOOK ON VALUE ADDED TAX**

* Rulebookdefines the method of value added tax exemption for **projects implemented and financed from IPA funds.**
* According to the aforementioned Rulebook, the role in the process of exempting from VAT the procurement of goods and services according to the pro forma invoices of contractors with whom the Republic of Serbia has concluded contracts under the IPA Financial Agreement is taken over by **the institutions/ organizations defined as Final beneficiaries of the projects**.
* The Final beneficiaries of the projects according to the Rulebook are equivalent to the **End recipients** according to IPA terminology. Occasionally within IPA, the End recipient can be at the same time the Final beneficiary (DM Decree on IPA, Article 2).

# PROCEDURE FOR OBTAINING VAT EXEMPTION ACCORDING TO THE TYPE OF CONTRACT

WORKS, SUPPLY AND SERVICE CONTRACTS:

* In the case of contracts related to the execution of works, the provision of services and the procurement of goods, when the contractor is a domestic/foreign person, **the Final beneficiary of the project within which the contract is implemented** is obliged to perform VAT exemption in the electronic application of the Tax Administration (where he/she encloses the Pro forma invoice/Invoice and other necessary documentation received in the PDF form from the contractor).
* In case when the contractor is a foreign person who engages a domestic subcontractor for the procurement of goods/provision of services in order to implement the project, **the foreign person is obliged** to perform VAT exemption in the electronic application of the Tax Administration through its representative who is the citizen of The Republic of Serbia and who is the resident of The Republic of Serbia.
* In supply contracts when the contractor is a company which is not from the Republic of Serbia, the Final beneficiary does not perform VAT exemption procedure for advance payment and final payment, VAT exemption is performed before direct import of goods.

TWINNING CONTRACTS:

* For twinning contracts, the Final beneficiary from the contract does not perform VAT exemption procedure for payments made to the contractor. The contractor for the procurement of goods / services in order to fulfill the contract activities performed the exemption from VAT in electronic application of the Tax Administration.

GRANT CONTRACTS:

* For grant contracts, the Final beneficiary from the contract does not perform exemption from VAT for payments made to the contractor. **Final beneficiaries of grant contracts perform VAT exemption procedure for payments made to subcontractors**. **Grant beneficiaries** are obliged to send the VAT exemption documents by email to CFCU for verification and after verification, enter the data together with documents in PDF format in the electronic application of Tax Administration.

**EXEMPTION FROM CUSTOMS DUTIES**

In case of exemption from customs duties, the Contractor submits to the Final beneficiary a bilingual invoice (in English / Serbian language).

After certification of the PPO-PDV form by the Tax Administration, the Final Beneficiary together with the original copy of the certified PPO-PDV form, submits to the customs office where he/she will perform customs clearance of goods a copy of the Contract with the Ministry of Finance (in English and Serbian language), as well as a copy of the Framework Agreement between the Government of the Republic of Serbia and the Commission of the European Communities on the Rules for Co-operation concerning EC-Financial Assistance to the Republic of Serbia in the Framework of the implementation of the Assistance under the Instrument for Pre-Accession Assistance (IPA) or the Framework Agreement between the Republic of Serbia and the European Commission on the Arrangements for Implementation of Union Financial Assistance to the Republic of Serbia under the Instrument for Pre-Accession Assistance (IPA II) or the Framwork Agreement and the European Commission on the arrangements for implementation of Union financial assistance tot the Republic of Serbia under the Instrument for Pre-Accession Assistance (IPA III) as the legal basis for the exemption from Customs Duties.

**TIME FOR SUBMITTING THE REQUEST FOR VALUE ADDED TAX**

**EXEMPTION**

* 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 donation 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**.

**ELECTRONIC SUBMISSION OF VAT EXEMPTION**

* 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)
* Authorization 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).

**PROCEDURE FOR THE PREPARATION OF PPO PDV 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 prepared by the representative of the CFCU.
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 VAT 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).**

# CONTENT OF THE PRO FORMA INVOICE / INVOICE

**Each pro forma invoice / Invoice must contain:**

1. Data about the supplier/ service provider / works contractor: name, address, telephone and tax identification number – PIB;
2. Data about the buyer: name, address and tax identification number – PIB;
3. Number of the Pro forma invoice / Invoice;
4. Place and date of the issuance of the Pro forma invoice / Invoice;
5. 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);
6. Signature and stamp (if the Pro forma invoice is valid without signature and stamp, it needs to be specified);
7. 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 20.12.2017. to 26.12.2017. / period of realization of works from 01.05.2018 to 30.08.2018).

**Pro forma invoice / Invoice must not contain:**

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

**CONTROL OF THE DOCUMENTATION BY THE CONTRACTING AUTHORITY (CFCU)**

Control PPO- PDV form by the CFCU will be performed in the following way. Beneficiaries shall:

1. Firstly, fill in PPO-PDV form in Word and with relevant documentation deliver it to the CFCU by e-mail for control, before submitting an electronic request for VAT exemption through the application.
2. Upon receiving CFCU consent by e-mail, **Final beneficiaries / End Recipients enter data from the PPO-PDV form into the electronic application of the Tax Administration in the respective application fields** and upload the relevant documentation to the application, i.e. attach scanned documentation in PDF form (e.g. Pro forma invoice / translation of pro forma invoice, invoice, translation of invoice, interim payment certificate or final statement of account, etc.).
3. After obtaining a certified PPO-PDV form in the electronic application of the Tax

Administration of the Republic of Serbia, it is necessary that **the Final beneficiaries / End Recipients to submit the form by e-mail in PDF form to the Contracting Authority.**

**CONTACT PERSONS FOR PROVIDING SUPPORT TO THE FINAL BENEFICIARIES / END RECIPIENTS AND CONTRACTORS RELATED TO THE EXEMPTION OF VALUE ADDED TAX AND CUSTOMS:**

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