



IMPLEMENTING PARTNER'S NOTICE 08-001

Date: February 14, 2008
To: All USAID/India Program-Funded Contractors and Recipients
Subject: Tax Exemptions

There are various tax exemptions applicable to USAID program-funded activities. The exemption of taxes by the Government of India (GOI) has been the subject of discussions with the Ministry of External Affairs for several years, and the Embassy and USAID will continue to work with the GOI to resolve tax-related issues as they arise. Below is a brief summary of the tax exemptions by category:

1) Income Tax on Expatriate Personnel Working on USAID Program-Funded Awards

The USG entered into bilateral agreements with the Government of India in 1950 and 1952. These agreements accord tax exemptions to USAID and its US employees, but appear not to apply to USAID contractors, recipients and their personnel. This was addressed in a subsequent letter from the GOI which purports to clarify that experts who are employed by the USG through contracts with private agencies and assigned to India under the bilateral agreements, are exempt from income tax. USAID interprets this letter to mean non-Indian contractors and recipients and their expatriate employees, who are wholly funded by USAID, are exempt from income tax. We are not aware of any contrary interpretation by the GOI.

2) Value Added Tax (VAT)

VAT is paid by contractors and recipients at the point of sale, and refunds are subsequently claimed by USAID based on documentation provided by our partners. VAT refund claims must be for goods purchased from a registered dealer in a single transaction recorded on a single receipt and the sales price of the goods must exceed Rs.1,500 per transaction. Each invoice must show the purchaser's name and "c/o U.S. Embassy (USAID)" to ensure that the transaction is clearly linked to the USG as the entity eligible for the VAT exemption.

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The refund claims are submitted quarterly based on the GOI fiscal year. Quarters are April/May/June, July/August/September, October/November/December, and January/February/March.

To claim a refund, contractors/recipients must submit the original purchase invoices/receipts within 7 days following the end of each quarter to Mr. K.S. Nainwal in the Executive Office (EXO) at USAID/India. Please note that each invoice/receipt must clearly state:

Vendor Name
Purchaser (Contractor/Recipient) Name, c/o USAID
Vendor Tax Identification Number (TIN)
Tax Amount
Total Amount

Be sure to turn in purchase invoices/receipts for the quarter in a timely manner, as the Mission cannot submit retroactively for an earlier quarter. Please attach the receipt to a cover note, subject "Request for VAT Refund", and list your organization's name, office and telephone number. Please keep a photocopy of the memo and invoice for your records.

The Embassy files one single VAT refund claim to the GOI quarterly. The GOI will then review the claim and may reject some invoices/receipts. When the Mission receives its net refund, USAID's Financial Management Office will then credit VAT to awards, as appropriate.

3) Excise Tax

The GOI currently maintains that USAID contractors are not eligible for exemption of excise taxes. However, USAID supports this exemption and will continue to work with the Embassy and the GOI to obtain such. Therefore, it is requested that contractors attempt to obtain exemption/reimbursement of these taxes. Claims for excise taxes on cars and similar large item luxury goods must be approved in advance by the GOI. The proforma invoice showing the excise tax amount must be presented to Mr. K.S. Nainwal in EXO at USAID/India to obtain GOI approval for the excise tax exemption in advance of the purchase. Once such approval has been received, the item may be purchased and excise tax paid at point of sale. The original invoice, together with the "excise paid" certificate, should then be submitted to Mr. K.S. Nainwal who will in turn request reimbursement of the tax from the GOI.

4) Service Tax

Currently no exemptions exist for service tax for USAID's program-funded partners. This is an allowable cost under the implementing award.

5) Luxury Tax

Luxury tax is charged by most hotels. To claim the point of sale exemption, obtain an Embassy exemption letter from Mr. K.S. Nainwal in EXO at USAID/India to present to the hotel at check-in. The hotel will then remove the luxury tax from the bill. Please note that the further away the travel is from major cities and diplomatic consular districts, the more likely the hotel will not recognize or grant the exemption. This exemption applies only to program-funded travel, not personal travel.

6) Fringe Benefits Tax

Currently no exemptions exist for fringe benefits tax for USAID's program-funded partners. This is an allowable cost under the implementing award.

For questions regarding this notice please contact the USAID/India Contracting/Agreement Officer at indiarco@usaid.gov.