VAT Exemptions for Projects Implemented by the Government

Introduction

Value Added Tax exemptions are provided for under Section 6 of The Value Added Tax Act, Cap. 148 "The Act". Generally, the Act provides that, supplies or persons shall not be exempted from paying VAT unless provided by the Act or Schedule to the Act. However, the Act empowers the Minister (Minister responsible for Finance) to grant VAT exemption on imports by a Government entity or supply to a Government entity of goods or services to be used solely for-

a) Relief of natural calamity or disaster.

b) Implementation of a project funded by the Government, Government Loans or Grants

Project funded by Government eligible for Minister’s exemption means a project financed by the Government in respect of transport, water, gas or power infrastructure; buildings for provision of health or education services to the public; or a center for persons with disabilities.

For the purpose of part b) above, the loan or grant agreements must provide for VAT exemption on such goods or services in order to qualify for exemption. All VAT exemptions to Government entities shall be provided by order published in the Gazette. An exemption order shall specify goods or services that are eligible for exemption, commencement and expiry date of the exemption.

Note:

Goods or services whose VAT exemption is provided for by the Schedule to the Act, shall be imported or supplied to the Government entities exclusive of VAT in the normal way without a need of Minister’s Exemption Order.

Procedures for Application of VAT Exemption

Application to The Minister for Finance and Planning

All applications for VAT exemptions shall be made to the Ministry for Finance and Planning through the respective Ministry of the Government entity that is implementing the project.
Applications shall be made using form **ITX264.01.E** and shall be attached with the following documents:

i). Project contracts including contract with the implementing contractor and loan or grant agreement

ii). List of goods or services for which VAT exemption is sought, supplier name and location

iii). Letter from the Accounting Officer providing commitment that, tender processes as per the requirements of the Public Procurement Act, CAP 410 have been observed

iv). Letter of vetting from the Attorney General for contracts between the Ministry/Entity and the implementing contractor (This applies for contracts that require Attorney General’s vetting as per the requirements of The Public Procurement Act, Cap. 410)

v). Written confirmation from the respective Ministry indicating that, project costs have been projected exclusive of VAT

### Application for utilization made to The Commissioner General

Following Minister’s Order, the applicant shall further process the exemption by making a submission to the Commissioner General though the office of his TRA Regional Manager by using form **ITAX.265.01.E**. The duly filled form shall be attached with the following:

i). Copy of the Exemption Order issued by the Minister for Finance and Planning

ii). Proforma invoice for goods or services to be purchased within the URT

iii). Single Bill of Entry and Bill of lading for goods or services to be imported

The Commissioner General shall verify the application within 30 days from the date of receiving the application and communicate the decision to the applicant. The commissioner shall issue a Special Relief Certificate for complete and accepted applications that will enable the applicant to be supplied or import goods or services without VAT.

**Note:**

VAT Exemption shall apply only to the listed and granted goods or services. For goods or services that have not been specifically granted exemption shall be invoiced with VAT and the respective Government entity shall be required to pay VAT on such goods or services accordingly.

### Accounting for Utilization of VAT Exemption

The VAT Exemption beneficiary shall file a report of Utilization of the Granted Tax Exemption by using form **ITX 266.01.E** to account for exempted tax in the following manner:
i). For projects whose implementation period does not exceed 1 year, the report shall be filed within 30 days after lapse of every 6 months.

ii). For projects whose implementation is for more than 1 year, the report shall be filed within 30 days after the end of each Financial Year for the entire period of project implementation.

Failure of the exemption beneficiary to account for exemption through the reports empowers the Commissioner General to charge and demand the unaccounted VAT as per the requirements of the Act.