



EUROPEAN COMMISSION

Directorate D – Financial Instruments  
D.5 – Institution Building Unit  
The Head of Unit

11. 03. 2005

Brussels,  
AVH/cd – REG-D5(2005)D/1310

**Note to all National Contact Points for Twinning and to the Administrative Offices**

*Subject:* VAT for Twinning contracts

Dear Colleagues,

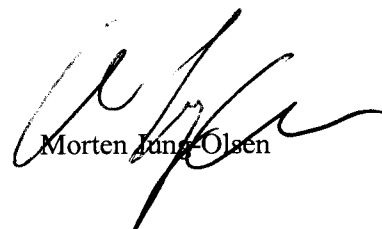
Over the past weeks, the Twinning Co-ordination team has been approached with questions regarding the status and processing of Value Added Tax expenditure in Twinning projects, especially in projects financed under the Transition Facility.

In order to clarify this issue, I refer to the wording of Article §2 of the Memorandum of Understanding on the Transition Facility, stating that: *'VAT does not constitute eligible expenditure except where it is genuinely and definitely borne by the final beneficiary or individual recipient'*.

This leads me to confirm that VAT expenses borne by the beneficiary institutions which cannot be recovered by these institutions from a further institution or third person will under the **Transition Facility** be considered as eligible expenditure. In that respect, it is not relevant whether the service in question is taxable in one or the other Member State.

The PHARE Framework Agreement (attached to each Financing memorandum) provides on the other hand that **PHARE funds** cannot be used to cover VAT expenses. I understand however that in some PHARE beneficiary countries, national legislation has addressed this issue and has foreseen detailed recovery mechanisms. Whilst it is therefore impossible to define a general position, I would invite Twinning partners to make careful enquiries before engaging in any purchases or orders for services which are likely to involve VAT Costs in PHARE Twinning projects.

Yours sincerely



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