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Item 5(c)(x)

Taxation of development projects

TAX TREATMENT OF DEVELOPMENT PROJECTS

Introduction

The issue of the tax treatment of development projects, also often referred to as donor-financed projects, has been on the Committee agenda for many years. In recent years there has been little

* E/C.18/2017/1

The guidelines:

9. The guidelines as initially drafted dealt with assistance provided by foreign governments and international organizations. They did not seek to address assistance provided by NGOs and private donors. Given the substantial increase in private funding for

In practical terms and in order to follow the spirit of this guideline, the official of the Ministry of Finance and/or Tax Administration officials of the recipient country should be part of the negotiations of tax treatment of a donor-funded project.

B. Income taxation - employment remuneration:

The remuneration, including employment-related benefits, for employment services related to an assistance project that an individual derives from that individual's employment by the government of the country, international governmental organization or agency thereof that finances that project should not be taxable in the recipient country.

This is a principle that lends itself to some debates. It is a long standing tradition in the donor funded projects not to tax individual income or remuneration derived from working in that project. However one may question the justification of not paying taxes by a foreigner residing in country more than half a year and in some cases for several years as a consultant on particular project.

No indirect taxes, including custom duties, should be imposed on the temporary admission of goods to be used for the purposes of an assistance project of a country, international governmental organization or agency thereof.

For that purpose, countries should implement the rules of, or become parties to,

a) Chapter 1 on Temporary Admission, Specific Annex G to the International Convention on the simplification and harmonization of Customs procedures, as amended (commonly referred to as “the Revised Kyoto Convention”), and

b) the parts of the Istanbul Convention that relate to temporary admission.

G. Indirect Taxes – specific exemptions related to donor-financed projects:

Where it is considered that tax relief from indirect taxes, including custom duties, must be granted with respect to goods used or supplied in relation to an assistance project of a country, international governmental organization or agency thereof in cases other than those described in the above Guidelines,

a) the relief should be

i) restricted to clearly identified goods that are strictly necessary for the purposes of the project, and

ii) in the case of goods to be acquired specifically for that project, restricted to