



Have you considered the Value-Added Tax effects of Foreign Donor Funded Projects?

The Value-Added Tax Act (the VAT Act) specifically, defines the so-called “Foreign Donor Funded Project” (FDFP), which contains the following features:

- The project must be established under the international donor funding agreement to supply goods or services to beneficiaries.
- The Government of South Africa must be a party to the agreement, and it must be tabled in the National Assembly.
- The agreement must stipulate that the funding cannot be used to pay any taxes imposed under South African Law.
- The Minister of Finance must have approved the project to be an FDFP for VAT purposes.

foreign donor for the sole intended purpose. In this regard, it is also a requirement under such agreements that the foreign donor funding be kept separate from the general funds of the implementing agency.

Although the implementing agent may be carrying its own activities outside of FDFP activities, the VAT Law regards each FDFP (e.g. each agreement) as a separate enterprise for VAT purposes with the result that each FDFP must be registered separately as a branch of the main VAT registration of the implementing agent. Consequently, each FDP must therefore file its VAT returns separately and separately keep its financial records.

Such agreements are common for Government Departments and generally aligned to the development and reconstruction priorities developed by it. Such projects must be utilized fully for such purposes. It is also common course for the Government Departments to subcontract its responsibilities to a different institution or 3rd party who take responsibility of operating, administering, implementing, and managing the specific project.

In order to give effect to the requirement stipulating that such international donor funding cannot be used to pay for any taxes imposed under the South African Law, the VAT Act imposes VAT at the rate of 0% on international funding received which qualifies as FDFP. Equally, the VAT incurred on the acquisition of goods or services by the FDFP may be deducted as input tax.

On 1 April 2020, the VAT Law was amended by introducing the term “implementing agency”, which is defined as a legal person that the Government of South Africa contractually appoints to operate, administer, implement and manage the FDFP. The implementing agency is responsible for the accounting of funding and distribution of such funding received from the

Have you considered the following in your business operations?

- Are you party to international donor agreements?
- Have you evaluated the VAT status of the implementing agents appointed to operate, administer, implement, and manage their FDFP, on your behalf?
- Have you evaluated whether the implementing agents’ systems are capable of separately managing the financial activities` of each FDFP with effective controls and processes for VAT accounting?
- Have you evaluated whether the implementing agents have separately registered the FDFP for VAT purposes and accordingly file separate VAT returns?

