**ANNEX VII:TAXES AND CUSTOMS ARRANGEMENTS**

The contract is, as a rule, exempt from all taxes and duties, including value Value Added Tax (VAT) and Special Consumption Tax (SCT), Motorvehicle Tax, Special Communication Tax, and/or taxes of equivalent effect, stamp or registration duties or any other charge having equivalent effect, pursuant to the provisions of Articles set out in the Framework Agreement**[[1]](#footnote-1)** signed between the Republic of Turkey (hereinafter will be referred "Turkey") and the EU in 2008, extract of Article 25 & 26 of which are provided below.

The Contractor shall accordingly complete the necessary formalities with the relevant authorities to ensure that the goods and services required for performance of the Contract are exempt from taxes, customs, import duties, levies and/or taxes of equivalent effect, and stamp or registration duties or any other charge having equivalent effect in accordance with the rules that are set out below.

The relevant provisons of the Framework Agreement (the FWA) are as follows:

**Granting of facilities for the implementation of programmes and execution of contracts**

(1) In order to ensure the effective implementation of programmes under IPA, Turkey shall take all necessary measures, without prejudice to public security and public health, to ensure:

1. that, in the case of service, supplies or works tender procedures, natural or legal persons eligible to participate in tender procedures pursuant to Article 23 of the FWA shall be entitled to temporary installation and residence where the importance of the contract so warrants. This right shall be acquired only after the invitation to tender has been launched and shall be enjoyed by the technical staff needed to carry out studies and other preparatory measures to the drawing up of tenders. This right shall expire one month after the decision of contract award;
2. that personnel taking part in European Union financed activities, including Resident Twinning Advisors in IPA twinning projects,and members of their immediate family are accorded no less favourable benefits, privileges and exemptions than those usually accorded to other international staff with comparable rank and status employed in Turkey under any other bilateral or multilateral agreement or arrangements for assistance and technical co-operation, whichever is applicable to Turkey;
3. that personnel taking part in European Union financed activities and members of their immediate family are allowed to enter Turkey*,* to establish themselves in Turkey , to work there and to leave Turkey according to existing national legislation of Turkey, as the nature of the underlying contract so justifies;
4. the granting of all permits necessary for the importation of goods required for the execution of the underlying contract, subject to existing laws, rules and regulations of Turkey; natural and legal persons importing professional equipment shall, if they so request, benefit from the system of temporary importation as defined by the national legislation of Turkey in respect of the said equipment;
5. that imports carried out under IPA will be exempted from taxes, customs and import duties and levies and/or taxes of equivalent effect;
6. the granting of all permits necessary for the re-export of the above goods, once the underlying contract has been fully executed;
7. the granting of authorisations for the import or acquisition of the foreign currency necessary for the implementation of the underlying contract and the application of national exchange control regulations in a non-discriminatory manner to contractors, regardless of their nationality or place of establishment;
8. the granting of all permits necessary to repatriate funds received in respect of the activity financed under IPA, in accordance with the foreign exchange control regulations in force in Turkey;
9. transactions necessary for carrying out contracts under IPA will be exempted from procedures requiring the transfer of the price of goods and/or services to their contractors abroad through banks or financial institutions operating in Turkey.

(2) Turkey shall ensure full co-operation of all relevant authorities. It will also ensure access to state-owned companies and other governmental institutions, which are involved or are necessary in the implementation of a programme or in the execution of the contract.

(3) After the entry into force of this Framework Agreement Turkey will adopt the secondary legislation to enforce the requirements of the procedures laid down in this article while keeping these procedures as simple and as time efficient as possible in order to avoid delays of implementation.

**Rules on taxes, customs and import duties and levies and/or taxes of equivalent effect**

(1) Taxes, customs and import duties and levies and/or taxes of equivalent effect are not eligible under IPA. This exemption covers also the co-financing provided by Turkey.

(2) The following detailed provisions shall apply:

1. All imports by EU contractors shall be allowed to enter Turkey without being subject to customs or import duties, charges, Value Added Tax (VAT) and the Special Consumption Tax or to any other similar tax, duties or charges. Such exemption shall only be applied to the imports in connection with the goods supplied and/or services rendered and/or works executed by the EU contractor under the EU contract. Turkey shall ensure that the imports concerned will be released from the point of entry for delivery to the EU contractors as required by the provisions of the contract and for immediate use as required for the normal implementation of the contract, without regard to any delays or disputes over the settlement of the above-mentioned duties, taxes or charges.
2. EU contractors shall be exempted from VAT for any service rendered and/or goods supplied and/or works executed under the EU contract. Goods supplied or services rendered or works executed by a contractor to the EU contractor shall also be exempted from VAT. Such exemption shall only be applied to the goods supplied or services rendered or works executed which are connected with the goods supplied or services rendered or works executed by the EU contractor under the EU contract. Any EU contractor or contractor supplying goods and/or rendering services and/or executing works for an EU contractor who is entitled to the exemption, as provided in this Agreement, shall be entitled to offset or deduct any VAT paid in connection with the goods supplied and/or services rendered and/or works executed which are exempted from VAT, as provided in this Agreement, against any VAT collected by them for any of their other transactions. Should the EU contractor or contractor not be able to make use of this possibility, they shall be able to obtain a VAT refund directly from the tax administration upon submission of a written request to the tax administration accompanied by the necessary documentation required under Turkish law for the refund of VAT.
3. Natural persons not nationals and not residents of Turkey carrying out services and/or works and/or grant and/or twinning contracts financed by the European Union and the eventual co-financing contribution provided by Turkey shall not be subject to income tax in Turkey for the income generated by this type of contract.

Legal persons will be subject to the same above provision provided that they do not have their permanent establishment or fixed base in Turkey.

Profit and/or income arising from EU contracts shall be taxable in Turkey in accordance with its tax system, if the natural and/or legal persons making such profit and/or income have their permanent establishment or fixed base in Turkey according to the provisions of the applicable double taxation agreements as ratified by Turkey.

1. Expenditures of the EU contractors shall be relieved from the Special Consumption Tax. This relief shall only be applied to the expenditure in connection with the goods supplied and/or services rendered and/or works executed by that EU contractor under the EU contract.
2. Those benefiting from projects and/or contracts and/or activities carried out under IPA shall be exempted from “Inheritance and Transfer Tax” resulting from goods and/or rights and/or constructed facilities and/or funds transferred to them without consideration in any way under IPA.
3. Personal and household effects imported for personal use by natural persons (and members of their immediate families), other than those recruited locally, carrying out tasks defined in service and/or works and/or grant contracts and/or twinning contracts or covenants, shall be exempted from customs duties, import duties, taxes and levies and/or taxes of equivalent effect, the said personal and household effects being re-exported or disposed of in the state, in accordance with the regulations in force in Turkey after termination of the contract.
4. EU contracts shall not be subject in Turkey to stamp or registration duties, or to any other charge having equivalent effect. This exemption shall also apply to transactions and related payment orders under the EU contract with the exception of sub-contracting
5. For the purposes of this agreement, the term "*EU contractor*" shall be construed as natural and legal persons, rendering services and/or supplying goods and/or executing works and/or executing a grant under an EU contract.

The term "EU contractor" shall also cover partners in a consortium or joint venture, contractors and pre-accession advisors, also known as resident twinning advisors.The term "*EU contract*" means any legally binding document through which an activity is financed under IPA, including possible co-financing, and which is signed by the European Union Commission or Turkey or a grant beneficiary.

1. Apart from the taxes, customs and import duties and levies and/or taxes of equivalent effect mentioned above, the following shall also be exempted:

* Special Communication tax;
* Motor Vehicle tax.

(3) a) Whenever necessary, Turkey shall adopt the secondary legislation to enforce the tax provisions in this agreement shortly upon its entering into force.

b) The legislation provided for in the previous paragraph (a) shall contain rules regulating VAT-exemption certificates for EU contractors as well as the length of the procedures for their issuing, which shall not exceed 30 calendar days. It shall contain also procedures for tax refund, return and offsetting, and the requirement of a maximum of 10 calendar days for completion without any additional considerable costs. The legislation shall contain also exhaustive lists of documents which have to be submitted and which have to be directly relevant to the exemption procedure. In case of refusal, the legislation shall contain provisions for clear and duly acceptable justification. Tax exemptions to be provided under this agreement shall be on an ex-ante basis.

(4) The rules and procedures mentioned under Article 26 of the FWA shall also apply to any similar tax, duty or levy and/or taxes of equivalent effect, which may be instituted after the date of signature of this agreement in addition to, or in replacement of existing ones.

1. This is an extract of Article 25 and 26 of the IPA Framework Agreement signed between Turkey and the European Union Commission on 11.07.2008, and adopted as law by Turkish Parliament (no: 5824) on 03 December 2008 and which was published in the Turkish Official Gazette on 07 December 2008, no: 25787. It has been put into force by the government decree, no 2008/14450 that was published in Official Gazette (complementary version) no: 27090, dated 24 December 2008.

   Please, also refer to the Framework Agreement and the Communiqués issued by:

   the Ministry of Finance (the MoF) thereto for further information, especially for exemption scope and implementation procedure, which are available at the MoF’s website at: <http://www.gib.gov.tr/index.php?id=1055>

   the Ministry of Customs and Trade (MoCT) thereto for further information, especially for facilities extented for customs clearance, which is available at the MoCT’s website at:<http://mevzuat.basbakanlik.gov.tr/Metin.Aspx?MevzuatKod=9.5.14369&Mevzuatiliski=0&sourceXmlSearch=T%u00fcrkiye+%u2013+Ab+Kat%u0131l%u0131m+%u00d6ncesi+Yarc%u0131m+Arac%u0131>, published in the Official Gazzette of Turkey, No:27730, on 15.10.2010. [↑](#footnote-ref-1)