



**United States Agency for International Development
West Bank and Gaza Mission**

October 1, 2003

REF: 2004-WBG-01

TO ALL USAID CONTRACTORS

SUBJECT: GUIDANCE REGARDING REGISTRATION FOR 0% VAT STATUS

Dear Contractors:

We are pleased to announce that USAID has negotiated a solution to the problems our contractor community had with registering with the Palestinian Authority in order to be granted 0% VAT status. In a letter agreement concluded on September 9, 2003, the Minister of Finance and the Minister of National Economy agreed to a streamlined registration procedure.

Attached please find a memorandum outlining this procedure and the information requirements we need from each of you in order to proceed.

We appreciate your full cooperation. Please do not hesitate to contact me or Leo Pizarro with any questions or concerns related to the attached.

Sincerely,

(Signature on file) _____

Erin Elizabeth McKee
Contracting & Agreement Officer

Tel Aviv: American Embassy
71 Hayarkon St.
Tel. 972-3-5114848
Fax. 972-3-5114888

Jerusalem: American Consulate General
P.O. Box 290
Tel. 972-2-6227230
Fax. 972-2-6259484

MEMORANDUM

TO: All Contractors 04-WBG-01

FROM: Erin McKee & Leo Pizarro, Contracting Officers

SUBJECT: Registration of Contractors to Obtain 0% VAT Status

DATE: October 1, 2003

As you know, the Palestinian Authority requires that contractors register with the PA before they may be granted 0% VAT status. However, contractors who attempted to register complained that the process was too cumbersome and time-consuming. Other contractors expressed concerns that registration would subject them to additional legal and administrative burdens, such as taxes on corporate income and on expatriate salaries.

We are pleased to announce that USAID has negotiated a solution to these problems. In a letter agreement concluded on September 9, 2003, the Minister of Finance and the Minister of National Economy agreed to a streamlined registration procedure. For each contractor, USAID will submit the following information to the Ministry of National Economy:

- (a) The name of the company.
- (b) The USAID number identifying the contract.
- (c) The purpose of the contract.
- (d) The duration of the contract and the total estimated contract price.
- (e) The name and title of USAID's cognizant technical officer for the contract.
- (f) The address, telephone number and fax number of the company's office(s) in the Palestinian territories.
- (g) The name and title of the person in charge of such office(s).
- (h) The names and titles of any other key personnel working in such office(s).
- (i) The address, telephone number and fax number of the company's headquarters in the United States (or third country).
- (j) The name and title of the president or chief executive officer at the headquarters.
- (k) A statement that the contract is financed by USAID, directly or indirectly, and that the contractor is present in the West Bank or Gaza for the sole purpose of providing development assistance to the Palestinian people.

After receiving this information, the Ministry of National Economy will notify the contractor and USAID that the contractor has been registered. The notice will state the contractor's registration number. Once the notice is issued, the contractor will file a copy of the notice with the VAT Department. From that point forward, the contractor will have 0% VAT status.

The agreement also exempts registered contractors from other taxes and duties.

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Specifically, the agreement provides that no taxes, tariffs, duties or other levies will be imposed by the Palestinian Authority or any agency or instrumentality thereof on:

- (a) Income of the contractor;
- (b) Salary, wages or other income of expatriate personnel of the contractor;
- (c) The importation or use of the personal effects of the contractor's expatriate personnel (including personally owned motor vehicles); or
- (d) The purchase, importation or use, by the contractor or its expatriate personnel, of any equipment, supplies or materials financed by USAID, directly or indirectly.

For this purpose, "expatriate personnel" means employees or consultants who are citizens of the United States or a third country and who were residing outside Israel and the Palestinian territories at the time they were hired by the contractor.

The agreement also exempts registered contractors from periodic filing and reporting requirements, including any requirement to file financial statements. In lieu of such requirements, USAID will report to the Ministry of National Economy, on an annual basis, any material changes in the information previously submitted by USAID for registration purposes.

As a condition for receiving these exemptions, the agreement requires that contractors comply with local labor laws and withhold and pay taxes on the salaries of Palestinian employees who are not "expatriate personnel" (as defined above). Contractors must also comply with all other laws and regulations that are consistent with their status as USAID's partners in providing development assistance to the Palestinian people.

The agreement provides that these procedures apply to all for-profit contractors and subcontractors that are organized under the laws of the United States or a third country and are present in the West Bank or Gaza solely for the purpose of performing work financed by USAID and/or other tax-exempt foreign donors. (Non-profit contractors and subcontractors already have 0% VAT status under procedures that apply to NGOs.)

To begin the registration process, all contractors must submit to USAID the data required for registration. Please use the attached Excel sheet for this purpose, and submit the information to Abeer Odeh of our Financial Management Office via E-mail (aodeh@usaid.gov) by October 10, 2003. USAID will then submit the data to the Ministry of National Economy.

A separate notice will be issued soon providing instructions on how to deal with local vendors and the VAT Department to ensure that purchases of goods and services are exempt from VAT.

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Please provide your information by filling out the following sheet

Please provide separate entries for each contract you may have

Company Name	Contract No.	Contract Purpose	Duration Date	Total Contract Amount	Contact Person (Field/WBG)	Title of Contact (Field/WBG)	Address

Telephone No. (WBG)	Fax No. (WBG)	Name of President/CEO (US Headquarters)	Telephone No. (Headquarters)	Fax No. (Headquarters)	Name of USAID CTO	USAID Direct Financed	USAID Indirect Financed

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