



Confédération européenne des ONG
d'urgence et de développement

CONCORD interpretation to the treatment of taxes within the 2010 PRAG

May 2011

1. Scope of application and reference documents.....	2
1.1 Scope of application: what is at stake?	2
2. Applicable tax regime, and required documentation	3
2.1 Are unrecoverable taxes eligible costs in the call I am applying for?	3
2.2 What is the difference between eligible and accepted costs?	4
2.3 What is the Tax regime applicable to a call for proposals?	4
2.4 How should CSOs document unrecoverable taxes?.....	5
2.5 What are the exceptions to the proof obligation?.....	6
3. Budgeting separately for taxes.....	7
3.1 When do I need to budget separately for taxes?.....	7
3.2 How to budget separately for taxes?.....	7
4. The new approach to co-financing	8
4.1 How to calculate the EC and grant beneficiary contributions?	9
5. CONCORD's recommendations:	13
6. Reference documents.....	13

1. Scope of application and reference documents

1.1 Scope of application: what is at stake?

Since the coming into force of the new instruments under the 2007-2013 financial framework, taxes (i.e. indirect taxes such as value added taxes (VAT), customs and import duties, other fiscal charges and duties) have been considered ineligible costs under the Development Cooperation Instrument (DCI) and European Instrument for Democracy and Human Rights (EIDHR) legal bases: *“Community assistance shall not be used for paying taxes, duties or charges in beneficiary countries¹.”* (Articles 25.2 and 13.6 of the DCI and EIDHR regulations respectively)

These regulations concern grants under:

- The “thematic programmes” of the Development Cooperation Instrument (DCI) :
 - Environment and sustainable management of natural resources including energy
 - Non-state actors and local authorities in development
 - Food security
 - Migration and asylum
 - Investing in people
- And the European Instrument for Democracy and Human Rights (EIDHR)

This effectively implied that grant beneficiaries (including their partners, if applicable) unable to obtain full tax exemptions in the country of operation, were faced with taxes, including VAT, that could be considered as ineligible costs when reporting to the EU, and this despite the fact that these costs could not be reclaimed. As such, the issue became a growing concern for both CSOs and CONCORD.

What has been done so far?

CONCORD flagged the issue informally as early as 2008 and formally since 2009. In September 2010, CONCORD and the Human Rights and Democracy Network (HRDN) jointly lodged a complaint to the European Ombudsman on this issue. Since then, the Ombudsman has opened a case and asked the European Commission (EC) to answer to our official complaints. The EC answered back end of March 2011 and CONCORD’s final response to the EC’s opinion on the complaint was sent to the Ombudsman on 27 April 2011. We now have to wait for the Ombudsman to take its decision and make recommendations to the EC, which hopefully will also be addressed to the European Parliament and the Council.

Current situation

The entry into force of the 2010 version of the Practical Guide to Contract procedures for EU external actions (PRAG) in November 2010 allows grant recipients to charge unrecoverable taxes to their co-financing contribution. This is only applicable for calls for proposals launched after the entry into force of the 2010 PRAG or for calls published before 1st November if a formal corrigendum has been issued.

The following note, which was shared with and approved by DevCo, Unit G7, presents a first updated interpretation of how to deal with unrecoverable taxes within the 2010 PRAG.

¹ Beneficiary country: “The country or state outside the European Union with which the European Union has an agreed programme of cooperation.” *PRAG 2010 general Annex 1 Glossary of terms*

2. Applicable tax regime, and required documentation


2.1 Are unrecoverable taxes eligible costs in the call I am applying for?

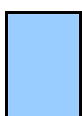
In order to check if unrecoverable taxes are eligible costs, CSOs should first identify the funding instrument or programme to which they are applying. This information is in the notice of the call for proposal to which you applied, available at: <https://webgate.ec.europa.eu/europeaid/online-services/index.cfm?ADSSChck=1304340287628&do=publi.welcome&userlanguage=en>

Eligibility of VAT within DEVCO's Funding instruments 2007-2013

Instrument for stability	
Nuclear Safety Co-operation Instrument (NSCI)	
European Neighbourhood and Partnership Instrument (ENPI) (*)	
European Development Fund (EDF) (*)	
Instrument for Pre-Accession Assistance (IPA) (*)	
European Instrument for Democracy & Human Rights (EIDHR)	
Thematic programmes	Development Cooperation Instrument (DCI)
	Investing in people
	Migration and asylum
	Food security
	Non-state actors and local authorities in development
	Environment and sustainable management of natural resources including energy

Caption :

 Funding instrument or programme where the legal bases considers that taxes in beneficiary countries are **ineligible** to EC funding, even when the grant beneficiary cannot reclaim them.

 Funding instruments or programme where the legal bases considers taxes in beneficiary countries **eligible** where the grant beneficiary can show it cannot reclaim them.

Although the legal bases of these funding instruments or programme consider taxes as an eligible cost, Financing Agreements (FA) signed before January 2011 with beneficiary countries can consider taxes as ineligible costs.

(*)

Under the DCI and EIDHR legal bases taxes are ineligible and can therefore be considered as part of the **accepted costs** (i.e. co-financing share of the beneficiary), if the CSO can demonstrate it cannot reclaim them.

Under other funding instruments, taxes are in principle eligible costs and will therefore be included in the **total eligible costs**, if the CSO can demonstrate it cannot reclaim them.

2.2 What is the difference between eligible and accepted costs?

The PRAG 2010 introduces the new concept of **accepted costs**. Accepted costs are composed of:

1. The total eligible costs which break down in the following manner:

- **Total direct eligible costs** (heading 1 to 6) incurred by the grant beneficiary which meet all the criteria of Article 14 of the general conditions
- **Administrative costs** (heading 10): up to 7% of the total eligible costs.

The basis of calculation of the administrative costs does not include ineligible taxes (heading 12).

2. Taxes (heading 12): indirect taxes such as value added taxes, customs and import duties, other fiscal charges and duties. This **should only be filled in where the applicable legal base excludes their financing (i.e. DCI and EIDHR)** and the grant beneficiary (or where applicable, its partners) can show it cannot reclaim them. Direct taxes such as taxes on salaries are considered as eligible costs and can be included under heading 1 of the budget, "Human Resources".

DCI / EIDHR:

⇒ Eligible costs + taxes = Accepted costs

Other Funding instruments:

⇒ Only Eligible costs

Under funding instruments other than DCI and EIDHR where taxes are in principle eligible (see list on page 2), unrecoverable taxes can be included as eligible costs within the relevant heading of the expenditure as long as the grant beneficiary can demonstrate it cannot reclaim them.

Consequently "heading 12" on Taxes and Total accepted costs are not filled out under these

other funding instruments, and reference is only made to Total eligible costs.

2.3 What is the Tax regime applicable to a call for proposals?

Since the entry into force of the 2010 PRAG, each call for proposals must provide the applicable tax regime in **"Annex J: Information on the tax regime applicable to grant contracts"**.

http://ec.europa.eu/europeaid/work/procedures/implementation/grants/documents/e3_a_1_guidelines_annexj_en.doc

This document identifies if the **EC has signed an agreement with the beneficiary country(ies) for partial or full exemption of taxes**. More specific information such as details of the competent tax authority of the beneficiary country(ies) and of exemption procedures (for example, the required formalities, the scheme for ex ante exemption or ex post reimbursement, etc.) may be added by the EU Delegation. This information can be very useful for your tax exemption process with the relevant authorities.

For regional calls this information will not be compiled in annex J. It is up to each applicant to contact individual delegations in their countries of operations.

CONCORD members have noticed that this annex is not systematically published with each call for proposals by Delegations. In this case CONCORD advises grant applicants to contact the EU Delegation (up to 21 days before the call for proposal's deadline) and to request this annex. The Delegation should then publish a corrigendum to the call.

2.4 How should CSOs document unrecoverable taxes?

In all cases (whether taxes are eligible or ineligible), CSOs (and their partners if applicable) must document the fact that they cannot recover taxes nor obtain an exemption under the applicable national law. This proof does not need to be submitted to the EU Delegation but must be available to auditors during the expenditure verification report.

Article 3.6 of the Terms of Reference for an expenditure verification report:

"The Auditor verifies that the expenditure for a selected item does not concern an ineligible cost as described in Article 14.6 of the General Conditions. The Auditor verifies whether expenditure includes certain taxes, including VAT. If this is the case the Auditor verifies that the Beneficiary (or, where applicable the partners) cannot reclaim these taxes through an exemption system and/or a refund a posteriori. If this is the case, taxes can be considered as eligible costs, provided that the basic act which finances the EU-contribution does not exclude payment of taxes."

CONCORD recommends CSOs to clarify with their audit firm the validity of the proof supporting documents when drafting the terms of reference of the expenditure verification report.

Valid types of supporting documents are listed in Annex J as follows:

- ✓ **"official document from the competent tax authority"** stating that the entity is not entitled to reclaim taxes incurred for the activities in question (and that this does not depend on the simple fact that it does not wish to be subject to VAT). This official document may be a **specific declaration or a refused claim** for reimbursement by the competent tax authority.
- ✓ **entity's annual accounts complemented**, if deemed necessary by the Contracting Authority, for example by an extract of the national VAT tax law **showing that the entity does not have to account for VAT**, a declaration of honor from the entity concerned accompanied by an expert statement (e.g. by a lawyer, auditor etc). »

Article 16.3 of the General Conditions has also been updated in this way: *"In addition to the reports mentioned in Article 2, the documents referred to in Article 16.2 include: (...) Proof that taxes and/or VAT that have been paid cannot actually be reclaimed;"*

In practice there are many countries where the tax authorities are not working efficiently or where they simply do not respond. In these cases, **CONCORD recommends CSOs to seek advice and support from the local EU Delegation. CSOs can also clarify with the Delegation how often the proof should be renewed.**

2.5 What are the exceptions to the proof obligation?

The exceptions to the proof obligation are determined by each EU Delegation when launching the call for proposals. They are listed in annex J ("Information on the tax regime applicable to grant contracts") of the call as follows:

*"a) **Low value taxes:** no proof must be provided for taxes for expenses where the amount of **taxes per invoice is less than EUR 200, within a maximum of EUR 2 500 per contract**, representing not more than 5% of the Contracting Authority's contribution."*

Auditors during the expenditure verification report will verify that the threshold has been respected, in which case no further proof will be required.

*"b) **Reimbursement of local expenses, including all taxes:** the following cases may be considered as proof that the grant Beneficiary has initiated the necessary steps to obtain exemption or recovery of taxes from the competent authorities (all the following conditions must be met):*

- i) **Where the grant Beneficiary demonstrates that **the steps necessary for recovery of taxes oblige him to incur costs in a country where it only performs the relevant operations on an ad hoc and isolated basis;*****
- ii) **These costs for recovery (e.g., registration fees in the country or the costs for appointing a tax representative, declaration fees, etc.) clearly exceed the amount of the taxes declared to the Contracting Authority."***

Both conditions have to be met in order to obtain this exception. CSOs with permanent operations in a country facing similar difficulties and high costs for recovery should raise the issue with the Delegation to determine whether their situation fits in the conditions set out.

*"c) **crisis situation:** no proof must be provided where a country has been declared in crisis situation or in the need for emergency and post-emergency assistance by the European Commission up to publication of guidelines (or corrigendum) and as long as the country remains in such a situation. [for restricted procedures: Grant applicants that are invited to submit a full proposal will be informed whether the concerned country(ies) by their proposal has (have) been declared in crisis]."*

The list of countries in a crisis situation is not published by the EC. Individual applicants are informed at full proposal stage.

*"d) **Projects for the protection of fundamental rights of peoples:** In the context of projects with a human rights dimension, it is understood that in these cases an attempt to recover taxes is not necessarily possible, by virtue of the nature of the project and/or the context of the intervention].*

*The Beneficiary shall prove that the above requirements are met at the latest **when submitting the final report.**"*

The scope of this paragraph covers all projects under EIDHR and other human rights related projects. If this paragraph is not included, CSOs should contact the Delegation in order to incorporate it in annex J, through the publication of an addendum to the call.

CONCORD recommends CSOs to seek advice and support from the local EU Delegation for determining if an exception to the proof obligation applies.

3. Budgeting separately for taxes

The new budget and financial report templates reflect the 2010 special conditions of the standard grant contract. These templates now distinguish between:

- **Budget heading 11- Total eligible costs composed of:**
 - **Budget heading 9 - Total direct eligible costs** incurred by the grant beneficiary which meet all the criteria of Article 14 of the general conditions.
 - **Budget Heading 10 - Administrative costs**: up to 7% of total eligible costs. The basis of calculation of the administrative costs does not include ineligible taxes (heading 12).
- **Budget heading 12 - Taxes:** indirect taxes such as value added taxes, customs and import duties, other fiscal charges and duties. This **should only be filled in where the applicable legal base excludes their financing (DCI and EIDHR)** and the grant beneficiary (or where applicable, its partners) can show it cannot reclaim them. Direct taxes (such as taxes on salaries) should not be included here.
- **Budget heading 13 - Total accepted costs** = total eligible costs (11) + taxes (12), including VAT, where the beneficiary can show it cannot reclaim them (unless one of the exceptions to the proof obligation applies).

3.1 When do I need to budget separately for taxes?

Under the DCI and EIDHR legal bases, taxes are not eligible and must now be identified under heading 12 “Taxes” as part of the total accepted costs.

Under other funding instruments, taxes are eligible in principle if the applicant can demonstrate it cannot reclaim them. Consequently “heading 12” on Taxes and Total accepted costs are not filled out under these other funding instruments, and reference is only made to Total eligible costs.

3.2 How to budget separately for taxes?

Budgeting accurately for taxes can be very difficult. It depends on a variety of factors, some of which will not be known at the proposal stage or may change during the course of the action:

- Different VAT rates
- Nature of costs subject to VAT
- Complexity of the local tax legislation
- Country of procurement of the goods and services
- Etc...

Therefore budgeting for taxes can only represent (as for other costs) the best estimate that an applicant can make at proposal stage, based on:

- identified line items for which it is known that taxes must be paid, and
- a rough estimate for taxes paid on other line items.

Under the DCI and EIDHR legal bases, all unrecoverable indirect taxes (including VAT), should be included in heading 12-Taxes. All direct taxes such as taxes on salaries for instance should be included within the relevant heading of the expenditure in direct costs, human resources in our example.

Under other funding instruments, direct and indirect taxes should be included within the heading of the expenditure in direct costs.

4. The new approach to co-financing

Under the DCI and EIDHR legal bases where taxes have been considered ineligible costs, the percentage of EC co-financing can be applied to the "accepted" costs of the action (heading 13). However these costs will fall within the co-financing share of the grant beneficiary. Therefore, two (maximum) EC co-financing rates are specified in each call for proposals:

- **% of total eligible costs.** This is used to calculate the actual amount of the EC-contribution. The maximum rate should always reach 100% in the case taxes are ineligible².
- **% of total accepted costs.** This is used to calculate the required amount of co-financing by the grant beneficiary. If the co-financing amount does not reach the minimum percentage fixed in the contract, then the EC contribution will be reduced proportionately.

In this new approach to co-financing the % of total eligible costs should always be higher than the % on the total accepted costs.

Where taxes are ineligible, CONCORD recommends CSOs to check that the call for proposal includes these two co-financing rates and that the % on eligible costs always reaches 100%, and is in any case higher than the one on accepted cost. If not an addendum to the call should be published by the Delegation

Please note that:

=> The EC will never fund under its contribution share costs under heading 12 –Taxes.

The EC only offers grant beneficiaries the possibility to show these costs as part of their co-financing share. Consequently, the EC co-financing rate applied to eligible costs (up to 100%) should always be higher than the one applied to accepted costs.

=> The former rule on the calculation of the EC contribution still applies:

- The amount of the grant may never exceed the maximum amount laid down in article 3.2 of the special conditions, even if the actual costs of the action are higher (article 17.1 of the General Conditions).
- On the contrary, if the total costs at the end of the action are lower than initially forecasted, the EC will apply the percentage rule to the amount actually spent: therefore the EC grant will be reduced accordingly (article 17.2 of the General Conditions).

² See footnote 1 of Guidelines template: "**Indicate 100% in the case (i) where the basic act/financing agreement with the Beneficiary country (if there is one) exclude financing of taxes and the grant beneficiary can show it cannot reclaim them and where a second percentage based on the estimated total accepted costs of the action must be fixed, or (ii) where there is an exception for financing in full. In all other cases, indicate the percentage derived from the action fiche**"

4.1 How to calculate the EC and grant beneficiary contributions?

4.1.1 At budgeting stage:

The steps to follow in order to calculate the EC contribution to the Action are:

Step 1 - Calculate the Maximum EC contribution on accepted costs

Step 2 - Calculate the Maximum EC contribution on eligible costs

Step 3 - Check the maximum EC grant amount in the call

Step 4 - Amount requested to the EC: lowest between 1, 2 and 3

Step 5 - Calculate the co-financing share of the grant beneficiary

Example : Call for proposals information :

Maximum % EC contribution on eligible costs	95%
Maximum % EC contribution on accepted costs	80%
Maximum grant amount	900 000

	Budget
9. Total direct eligible costs of the Action (7+ 8)	1 000 000
10. Administrative costs	70 000
11. Total eligible costs (9+10)	1 070 000
12. Taxes	25 000
13. Total accepted costs of the Action (11+12)	1 095 000

1 - Maximum EC contribution on accepted costs	
Total accepted costs x % of EC contribution on accepted costs : 80 % x 1 095 000	876 000
2 - Maximum EC contribution on eligible costs	
Total eligible costs x % of EC contribution on eligible costs : 95 % x 1 070 000	1 016 500
3 - Check the maximum EC grant amount in the call	900 000
4 - Amount requested to the EC: Take the lowest between 1, 2 and 3	876 000
5 - Co-financing share of the grant beneficiary	
Total accepted costs – EU contribution : 1 095 000 – 876 000	195 000

The amount requested to the EC will be 876 000 Euros representing 81.87% of eligible costs and the maximum of 80% of accepted costs.

4.1.2 At reporting stage:

The grant is now signed and special conditions stipulate in article 3.2 : *“The Contracting Authority undertakes to finance a maximum of 876 000 EURO equivalent to 81.87% of the estimated total eligible cost of the Action specified in paragraph 1 (1 070 000 EURO). The Contracting Authority's contribution is further limited to 80% of the estimated total accepted costs of the Action.”*

The steps to follow in order to calculate the EC contribution are:

Step 1 - Calculate the Maximum EC contribution on accepted costs

Step 2 - Calculate the Maximum EC contribution on eligible costs

Step 3 - Maximum EC contribution in the contract

Step 4 – EC final contribution: lowest contribution between 1, 2 and 3

Step 5 - Calculate the co-financing share of the grant beneficiary

We will use 6 different examples of final reports based on the call for proposal detailed in the above paragraph:

Final report 1: Taxes overspent

Eligible costs are entirely spent but taxes are overspent by 20 000 €

The EC contribution **cannot cover cost from heading 12** and is limited to the amount set forth in article 3.2 of the grant : 876 000 €.

The co-financing share of the grant beneficiary consequently covers entirely the additional tax costs (+20 000 €).

Final report 2: Taxes underspent

Eligible costs are entirely spent but taxes are underspent by 10 000 €.

Even though taxes have been underspent, the **grant beneficiary must meet its cost sharing obligation** which is determined by the co-financing rate on accepted costs: 80 % EC and 20% grant beneficiary.

The lower level of taxes (- 10 000 €) in the final report consequently impacts both contributions proportionally:

- 8 000 € for the EC and - 2 000 € for the grant beneficiary.

Final report 3: Eligible costs overspent

Eligible costs have been overspent by 21 400 € and taxes entirely spent.

Even though the actual eligible costs are higher, the amount of **the grant may never exceed the maximum amount laid down in article 3.2** : 876 000 €. The difference is covered by the grant beneficiary co-financing share (+ 21 400 €)

Final report 4: Eligible costs underspent

Eligible costs have been underspent by 21 400 € and taxes entirely spent

The total eligible costs at the end of the action are lower than initially forecasted, the **EC will apply the percentage rule on the actual eligible costs** and reduces its contribution accordingly.

The lower level of eligible costs (- 21 400 €) in the final report consequently impacts both contributions proportionally:

- 17 511€ for the EC and - 3 889 € for the grant beneficiary.

Final report 5: Eligible and taxes overspent

Eligible costs (+ 21 400€) and taxes (+20 000€) have been overspent.

Even though the actual eligible costs are higher, **the amount of the grant may never exceed the maximum amount laid down in article 3.2 : 876 000 €.** Moreover **the EC contribution cannot cover cost from heading 12.**

The co-financing share from the grant beneficiary consequently increases by 41 400€

Final report 6: Eligible and taxes underspent

Eligible costs (-21 400 €) and taxes (- 10 000 €) have been underspent.

The total eligible costs at the end of the action are lower than initially forecasted, the **EC will apply the percentage rule on the actual eligible costs** and reduces its contribution accordingly.

Moreover, even though taxes have been underspent, the **grant beneficiary must meet its cost sharing obligation** which is determined by the co-financing rate on accepted costs: 80 % EC and 20% grant beneficiary

Consequently the EC contribution is reduced by - 25 120 € and the grant beneficiary's co-financing share by - 6 280€

From the analysis of these case studies, CONCORD recommends CSOs to have a prudent approach when budgeting heading 12, as underspending on taxes has a negative impact on the EC contribution.

Underspending Taxes within budget heading 12 indirectly reduces the EC contribution as the grant beneficiary must meet its co-financing obligation determined by the % of EC contribution on accepted costs.

While on the contrary, over spending of Taxes within budget heading 12 allows keeping the maximum EC contribution and only impacts the co-financing share of the grant beneficiary.

Contract information (article 3.2 of the special conditions)

% EC contribution on eligible costs	81,87%
Maximum % EC contribution on accepted costs	80%
Amount of the EC contribution	876 000

	Final Report 1	Final Report 2	Final Report 3	Final Report 4	Final Report 5	Final Report 6
9. Total direct eligible costs of the Action (7+ 8)	1 000 000	1 000 000	1 020 000	980 000	1 020 000	980 000
10. Administrative costs	70 000	70 000	71 400	68 600	71 400	68 600
11. Total eligible costs (9+10)	1 070 000	1 070 000	1 091 400	1 048 600	1 091 400	1 048 600
12. Taxes	45 000	15 000	25 000	25 000	45 000	15 000
13. Total accepted costs of the Action (11+12)	1 115 000	1 085 000	1 116 400	1 073 600	1 136 400	1 063 600

1 - Maximum EC contribution on accepted costs						
Total accepted costs x % of EC contribution on accepted costs	892 000	868 000	893 120	858 880	909 120	850 880
2 - Maximum EC contribution on eligible costs						
Total eligible costs x % of EC contribution on eligible costs	876 009	876 009	893 529	858 489	893 529	858 489
3 - Maximum EC contribution in the contract						
Maximum grant laid down in article 3.2 of the special conditions	876 000	876 000	876 000	876 000	876 000	876 000
4 - Final EC contribution						
Take the lowest contribution between 1 , 2 and 3	876 000	868 000	876 000	858 489	876 000	850 880
5 - Co-financing share of the grant beneficiary						
Total accepted costs – EU contribution	239 000	217 000	240 400	215 111	260 400	212 0

5. CONCORD's recommendations

CONCORD strongly recommends CSOs to obtain, if possible, a general tax exemption (especially VAT) from the concerned country.

CONCORD emphasizes the need to document these official procedures in all cases (exemption or not).

CONCORD recommends each CSO to obtain "Annex J: Information on the tax regime applicable to grant contracts" for every call for proposals it answers in order to check the applicable tax regime, and exceptions to the proof obligation.

Where taxes are ineligible, CONCORD recommends CSOs to check that the call for proposal includes the two co-financing rates and that the % on eligible costs always reaches 100%, and is in any case higher than the one on accepted cost. If not an addendum to the call should be published by the Delegation.

CONCORD advises CSOs to try to obtain the support of the local EU Delegation in these procedures, in particular in countries where governments are not receptive. This would hopefully help the process but also raise awareness about the difficulties encountered by CSOs in the tax exemption process.

Finally CONCORD recommends CSOs to be prudent when budgeting taxes within heading 12 as underspending on taxes has a negative impact on the EC contribution.

6. Reference documents

Development Cooperation Instrument legal bases is available at:

http://ec.europa.eu/europeaid/work/procedures/legislation/legal_bases/documents/dci_en.pdf

Instrument for the Promotion of Democracy and Human Rights legal bases is available at:

http://ec.europa.eu/europeaid/work/procedures/legislation/legal_bases/documents/human_rights_en.pdf

The **2010 PRAG** is available at:

http://ec.europa.eu/europeaid/work/procedures/implementation/grants/index_en.htm

In addition to the PRAG, EuropeAid also has created an internal guide, for the benefit of the Commission staff managing external aid projects. Following the revision of this internal guide (named "Companion") in January 2011, a new chapter 7.5.4 was inserted to provide further assistance in the field of tax regimes applicable to EU financed contracts: **"Treatment of taxes in the area of EU external action"**. (attached)

In its FAQ's the EC has published a note on **"New co-financing approach in grants"** available at:

http://ec.europa.eu/europeaid/work/procedures/faq/documents/faqs_on_the_new_co_en.pdf