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**ACT Treasury – Accounting Branch
GST and Grants Training**

**Presenter:
Stephanie Males**

CANBERRA SYDNEY



Agenda



- **GST Overview**
- **Grants Overview**
- **GST & Grants**
- **Case Study 1**
- **GST & Appropriations**
- **GST Registration**
- **No ABN withholding**
- **GST planning for an effective Grants Program**
- **Other planning issues for an effective Grants Program**
- **Case Studies 2, 3**

GST Overview



- **GST is payable on taxable supplies** s 7-1(1) GST Act

- **Requirements for a taxable supply** – s 9-5
 - (a) Supply is made for consideration;
 - (b) Supply is made in furtherance of an enterprise;
 - (c) Supply is connected with Australia; and
 - (d) Supplier is registered

- However, a supply will **not** be a **taxable supply** to the extent that it is **GST-free** or **input taxed** - Div 38, 40

- **Input tax credits** are available when you make a **creditable acquisition**
- Div 11

Grants Overview



What is a Grant?

- 'a sum of money given to organisations or individuals for a specified purpose directed at achieving goals and objectives consistent with government policy'

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- Includes any funding arrangement where the Recipient is selected on merit against a set of criteria
- Does not include funding of activities primarily relating to the provision of goods and services directly to a Government Agency
(ie. procurement services)

GST & Grants



GST Treatment of Grants

Grant is subject to GST where the grant represents consideration for a taxable supply

GSTR 2000/11

Approach

- Is there a **taxable supply** – s 9-5
 - (a) Supply is made for consideration;
 - (b) Supply is made in furtherance of an enterprise;
 - (c) Supply is connected with Australia; and
 - (d) Supplier is registered
- Except if **GST-free** or **input taxed** – Div 38, 40

GST & Grants



Is there a supply made for consideration?

There is a supply...

- Must be an identifiable consumer
- Grants of money – not a supply
- Grants in kind – is a supply

Supply of right/obligation

- Is supply part of a larger transaction? – not taxable if it is incidental to overall transaction
- Is supply binding on the parties? – must be to be taxable

GST & Grants



There is consideration...

- **Consideration** for a supply if the payment is in connection with, in response to, or for the inducement of, a supply
- **Consideration** includes payments, acts and forbearance to act – s 9-15
- Appropriations are **not consideration** – s 9-15 (3)(c)
- Gifts are **not consideration**

GST & Grants



Supply made for consideration...

- Supply and consideration alone are not sufficient
- Supply must be for consideration, or consideration is for supply
- Is there a **substantial relationship** between the substance of obligation and the Grant?

GST & Grants



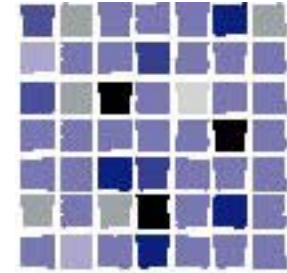
■ Distinguish

- Dealings between the Grantee (Recipient) and Grantor (Agency)
- Dealings between Grantee (Recipient) and third parties

■ GST on one transaction is not dependent on GST applying to other transactions

- Even though the grant funds are used to make GST-free or input taxed supplies to third parties

Case Study 1



Is the Grant subject to GST?

GST & Appropriations



...a payment made by a **GRE** to another **GRE** is **not** the provision of **consideration** if the payment is specifically covered by an **Appropriation** under an Australian law... – s 9-5(3)(c)

GRE = Government Related Entity

GST & Appropriations



The payment is specifically covered...

- Clarification of “specifically covered” provided in *GSTR 2006/11*
- “Specifically covered” does not mean the payment must be specified in wording of the relevant appropriation.
- RATHER the payment must be specifically covered by the appropriation which is authority for the payment
 - The following must be specified:
 - Purpose of the payment; and
 - Amount of the payment.
 - Often this information is detailed in relevant documents supporting the appropriation
 - Eg. Budget papers, Agency Budget Statements, Portfolio Budget Statements

GST Registration



For a supply to be a **taxable supply** the grantee (recipient) must be registered or required to be registered for GST - s 9-5(d)

- **Registration threshold**

(From 1 July 2007 the GST registration threshold increased)

- **A non-profit organisation must be registered for GST where turnover is greater than \$150,000 pa**

- **Any other organisation must be registered for GST where turnover is greater than \$75,000 pa**

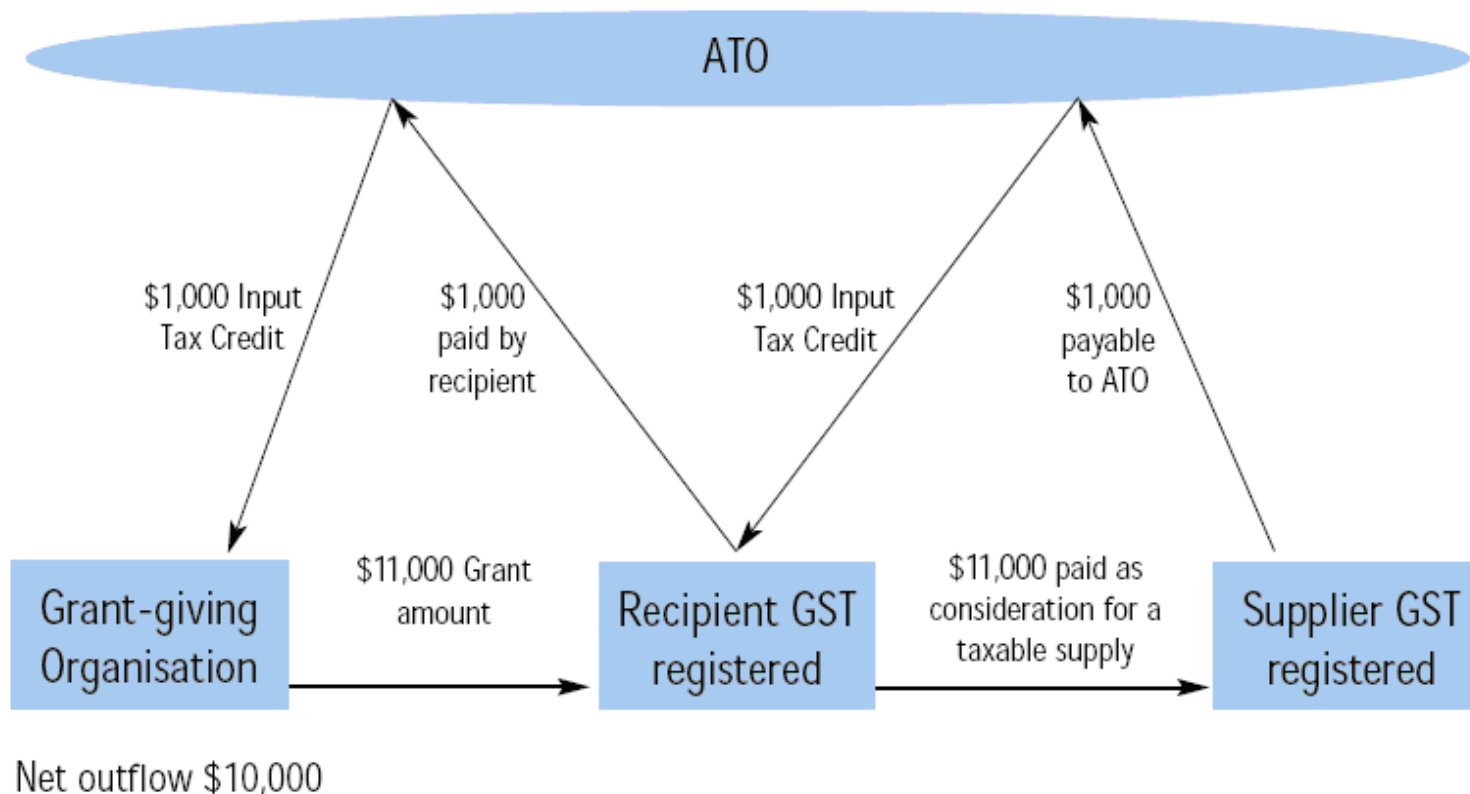
The GST implications surrounding a grant funding arrangement **change substantially** where the grantee (recipient) is not registered

GST Registration (1)



■ Cash Flows – Grantee (Recipient) GST registered

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GST Registration (1)



Recap:

ACT Government Agency = Grant-giving organisation =
entitled to **\$1,000 input tax credit**

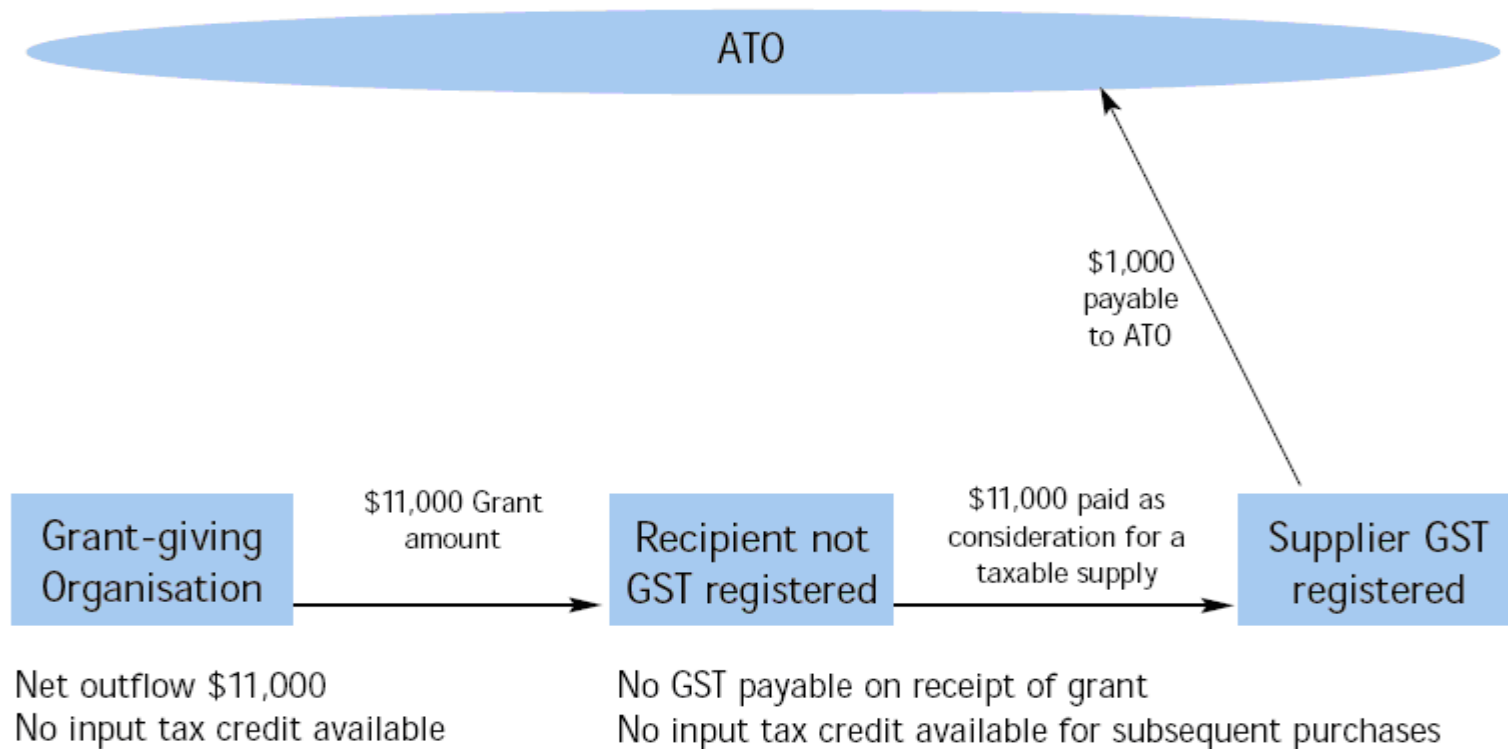
Grantee (Recipient) = remit **\$1,000 GST to ATO**

GST Registration (2)



■ Cash Flows – Grantee (Recipient) not GST registered

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GST Registration (2)



Recap:

ACT Government Agency = Grant-giving organisation =
NO input tax credit = grant funding cost \$1,000 more

Grantee (Recipient) = **NO GST to ATO** = additional
\$1,000 toward grant program

**Fundamental difference when assessing a grant
program**

No ABN withholding



The ABN of the supplier is a requirement of a valid tax invoice

- Where no ABN is provided – must withhold tax at the top marginal rate (46.5%)
- Possible reasons why no ABN provided by supplier
- The ABN can be verified on the ABR website
 - www.abr.gov.au
- Watch out – mismatch arises where incorrect ABN given and input tax credit is claimed

GST planning for an effective Grants Program



Planning for an effective Grant program requires consideration of the **taxation issues** surrounding a Grant

The GST treatment of a grant needs to be determined on a **case by case basis**

GST planning for an effective Grants Program



Specific GST issues which should be considered are:

Step 1: Is the payment a Grant?

Step 2: Is the payment in receipt of a taxable supply?

- *Supply*
- *Consideration*
- *Supply for consideration*

Step 3: Is the payment an Appropriation – does s 9-15(3)(b) apply?

Step 4: Is the Grantee (Recipient) registered?

Step 5: Is the Agency providing a Recipient Created Tax Invoice (RCTI)

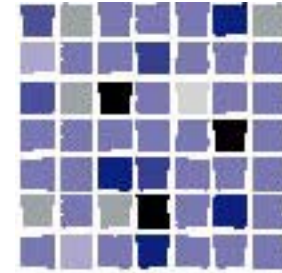
GST planning for an effective Grants Program



Recipient Created Tax Invoice

- In particular circumstances the Grantor (Agency) may issue a Recipient Created Tax Invoice (RCTI)
- Only certain classes of entities may issue RCTI → Includes Government Related Entities
- There are extrinsic requirements for a RCTI to be issued, which are placed on both the Agency and the Grantee (Recipient)

Other planning issues for an effective Grants Program



- Establishing a framework for making grants
- Dealing with applications as appropriate
- Developing a robust Funding Agreement
- Acquittal of funds
- Monitor and review

Case Study 2



Is GST Registration important?

Case Study 3



What is the Grant funding used for?

Questions?



Open Forum