



Grants under the Tasmanian Forest Tourism Initiative – Taxation fact sheet

Taxation treatment of government grants paid under the Tasmanian Forest Tourism Initiative

Through the Tasmanian Community Forest Agreement, the Australian Government is funding a \$3 million Tasmanian Forest Tourism Initiative to assist the development of environmentally sensitive tourism infrastructure in Tasmania.

The Initiative incorporates two related programmes:

- The Tasmanian Forest Tourism Development Programme; and
- The Tarkine Bushwalk Programme.

Eligible applicants must be one of the following legal entities:

- An incorporated association;
- A body corporate;
- A company;
- A trust;
- A partnership;
- An Aboriginal or Torres Strait Islander corporation, council or incorporated association;
- A non-profit organisation;
- A regional tourism or regional economic development organisation;
- A peak or national tourism industry association;
- An individual person; or
- A local or State government organisation.

Income tax consequences for businesses and entities that are not tax exempt

Generally where the recipient is carrying on a business or the grant, bounty or subsidy is received in relation to carrying on a business, then the grant, bounty or subsidy would be included as assessable income of the recipient.

Where the recipient is not in business or if the grant, bounty or subsidy is received prior to the commencement of a business, then the receipt would be an assessable capital gain.

The recipient may be entitled to a deduction for eligible expenditure incurred to offset the grant, bounty or subsidy provided the expenditure is not of a capital, or private nature. For capital expenditure, the recipient can deduct an amount equal to the decline in value for an income year of a depreciating asset that you hold for any time during the year for a taxable purpose.

Authority for the income tax treatment of grants, bounties and subsidies is found in a public taxation ruling *TR 2006/3 Income tax: government payments to industry to assist entities (including individuals) to continue, commence or cease business*. This ruling is available under the legal database area on the ATO website at www.ato.gov.au

Income tax consequences for tax exempt entities

As noted above, generally the receipt of a grant, bounty or subsidy is ordinary assessable income, statutory income or an assessable capital gain. Despite being assessable income, where the recipient is an exempt entity under Subdivision 50-A or Subdivision 50-B of the *Income Tax Assessment Act 1997*, the recipient would not need to account for the receipt or expenditure for income tax purposes.

GST implications for business and non-business entities

The taxable status of grants or subsidies is determined by:

- whether the supplier and/or the beneficiary of the grant are registered for GST
- whether there is a taxable supply made, **and**
- whether the grant is dependent on the supply.

Grants of money that attract GST

A grant of money, bounty or subsidy will attract GST if:

- the recipient of the grant is registered for GST, **and**
- the recipient of the grant is making a specific supply, **or**
- the recipient of the grant must meet specific conditions or purposes.

The specific supply, conditions or purposes must be central to the grant for GST to apply. For example, if a grant is subject to contractual conditions then it will attract GST.

If the requirement for a grant is only a general expectation that the recipient of the grant will do or produce something, but it is not a condition, then this is not central to the grant and GST will not apply.

Example:

A government grant made to a GST-registered research organisation that is conditional on the organisation producing a research paper is subject to GST (GST equal to 1/11th of the amount received is payable by the research organisation as they are being paid for a supply they are making).

However, if the grant is broadly for research and there is only a general expectation that a paper will be produced at the end of that research, and there is no recourse if the paper is not produced (that is, no repayment of the grant or refusal to offer any future grants), it will not be subject to GST.

Grants of money that do not attract GST

Grants, bounties or subsidies that do not involve the recipient of the grant making a specific supply of any kind in return for the money do not attract GST. This includes reimbursement grants for a good or service already provided.

Example:

A grant of financial assistance offered without any conditions is not taxable. This is simply a grant of money with no specified return. The simple giving of money is not subject to GST.

Authority for the GST treatment of financial assistance is found in a public Goods and Services Tax Ruling *GSTR 2000/11 Goods and services tax: grants of financial assistance*. This ruling is available under the legal database area on the ATO website at www.ato.gov.au

Recipients are advised to seek the assistance of their tax adviser to discuss the tax consequences as soon as possible.

For more information on the tax treatment of grants under the *Tasmanian Forest Tourism Initiative* you can:

- phone the Tax Office on **13 28 66**, or
- contact your tax adviser.

Last Modified: 19 Feb 2007

Copyright

© Commonwealth of Australia

This work is copyright. You may download, display, print and reproduce this material in unaltered form only (retaining this notice) for your personal, non-commercial use or use within your organisation. Apart from any use as permitted under the *Copyright Act 1968*, all other rights are reserved.

Requests for further authorisation should be directed to the Commonwealth Copyright Administration, Copyright Law Branch, Attorney-General's Department, Robert Garran Offices, National Circuit, BARTON ACT 2600 or posted at <http://www.ag.gov.au/cca>.