

GRANTS OR SUBVENTIONS ARE TAXABLE! By Jonathan Hore

I know that the title of today's article is rather special and can cause some anxiety in some readers. Well, in most cases, grants are given to, among others, wholly owned government corporates as well as parastatals and one would not imagine that the grants would have any tax implications. I want to share a few tax insights with you regarding this very important aspect of taxation. I hope that you would have grasped a couple of things when you finish reading this article; assuming of course that your eyes don't betray you before you read the last sentence. I am sure you know what I mean. In this article, words importing the masculine shall be deemed to include the feminine.

WHAT IS A GRANT OR SUBVENTION?

A grant or subvention or subsidy (hereinafter jointly referred to as 'grant') is an amount that is given to an organisation in order for it to fulfil its mandate. The reason behind the grant is that the organisation would not be profitable or may not be engaged in income generating activities, which explains why it would need a financial boost. Most governments provide public services through institutions that are brought into existence by statutes or enactments. I need not ask you how many parastatals you know but in case you are not sure, the following is a list of some of the most common parastatals: BURS, WUC, BITRI and NBFIRA. These creatures of the state do not have any shareholder who pumps in capital which they can use to operate but rely on government funding. Some of them may be income-generating but may still require additional funding in the form of grants/subsidies, to cover budgetary gaps. There are also entities where government owns 100% shareholding but which also receive the grants.

SO HOW COME THEY ARE TAXED?

Before I get into technicalities, let me make it clear that I am talking about parastatals, wholly government owned corporate and income tax. So, I am basically saying that the recipient of a grant, if they are not exempt from income tax, would be taxed on any amount of grant they receive. For the avoidance of doubt, let me be quick to state that not all parastatals/wholly government owned entities are exempt from income tax. Some of the parastatals which are now taxable, if they make profits, include NDB and WUC. Previously, they used to be exempt from tax on the basis that they were 'wholly owned' by the government. So, any parastatal or wholly government owned entity which is subject to tax has to register with BURS, file income tax returns and where applicable, pay income tax on the moneys it earns, including government grants.

I am sure you may still not be convinced that grants are taxable. Well, I am a tax consultant my dear and I do interpret tax acts. So let me tell you that there is an Act called the Income Tax Act which brings to tax any income earned by any specified person. If you had access to it and flipped to section 28, you would read exactly what you are going to see next, 'the gross income referred to in subsection (1) [i.e. for persons in business] shall include....any amount accrued by way of subsidy for or in relation to the carrying on of a business.' Gross income is basically the total income that one receives from their venture or enterprise and subsidies or grants are certainly part of that gross income, as per section 28(1)d of the Income Tax Act. I can see you are now nodding your head because I quoted the Act but I won't blame you though. But honestly, did you think that Yours Truly would sit in front of this old Dell laptop and not tell you the truth? Of course not. Grants are subject to income tax.

WHAT ABOUT ACCOUNTING TREATMENT?

I can tell you that accountants, using accounting best practices, do not recognize the full amount of the grants as income in the year in which it is received. The amounts are put through the Balance Sheet, meaning that profits made in any tax year would not have considered the full grant. But what you and I should bear in mind is the fact that taxation is governed by statutes and not accounting standards. So, regardless of the fact that the grants are not fully recognized in the year of receipt as part of income, the taxman wants them taxed as provided in section 28. One may ask why it is necessary to tax the grants. The honest truth is that a grant is an amount which an entity is given for the advancement of their business. So, if any other entity is taxed on income from sales, why should the grants escape tax my dear learned friend? Grants form part of the taxable income of the receiver, as long as that entity is subject to tax.

I know some of you may be asking yourselves whether everyone is aware of this special section I just quoted above. Well, honestly I don't but if I was going to guess, I would say that maybe 5% of professionals are aware of this. Please don't ask me about the rest; I do not have a clue.

Well folks, I hope that was insightful. As Yours Truly says goodbye, remember to pay to Caesar what belongs to him.