

TAX GUIDANCE:

Grants

Grants - their true nature

When an individual, business, government or governing body gives the club a grant, donation or award do not automatically assume that there are no tax consequences. It is important to look at any terms of the payment to be sure whether or not there is a tax impact; this is the case whatever the legal status of the club. Generally there will be little to worry about for either VAT or corporation tax purposes where it is given freely and no or minimal benefit is provided in return. However where this is not the case e.g. where there is a "services" agreement supporting the payment greater scrutiny of the tax position is required.

Grants freely given

A simple acknowledgement of the grant or gift on its own will not amount to the provision of any services or benefit for VAT purposes and the income will be outside the scope of VAT. Grants from bodies such as the Sports Councils are outside the scope of VAT if nothing is given in return for making the grant; this will be the case even if the grantor has a say in how the money is spent and the club has to account for its spending.

The position of grants given freely is slightly different for corporation tax and will depend on whether the grant is capital or revenue in nature:

- Revenue grants are usually contributions towards running expenses e.g. the cost of staging a competition, and will be treated as a subsidy towards the costs it is helping to meet. If the expenditure relating to the grant would usually be deductible for tax then this expenditure must be reduced by the value of the grant before deducting it from Corporation Tax calculations
- Capital grants are usually towards improving facilities and will reduce any tax relief on the capital expenditure to which it relates. Thus the impact of a capital grant will depend on the availability of capital tax allowances on the improvement expenditure. This approach applies to National Lottery grants for which there are no special tax exemptions. The discussion on corporation tax gives further details of taxable income and tax relief for expenditure.

Grants subject to "services"

Where grants etc are given in return for benefits such as advertising or services, VAT will be due along similar lines to sponsorship. In this instance the Club will need to raise a VAT invoice to the donor. If the club fails to charge VAT where it should have done, it may find itself having to pay VAT on the project costs relating to the grant, but unable to charge and recover it from the grantor. It would thus lose the VAT element of the grant. Corporation tax issues will also arise since the club will be charged to corporation tax on any surplus it makes from providing the advertising or other benefits or services.

Planning

It is recommended that clubs clarify the tax treatment of the grant before signing the grant agreement. The sums may be substantial so avoid an unwanted tax cost by planning at the outset for the tax implications.