**Research Grants - The Implications of GST**

It is the expectation that most research grants will be GST-liable (there are some exceptions).

GST will be payable on taxable supplies such as the supply of goods & services, transfer of information, grants & intellectual property transfers.

A taxable supply has been made when all of the following tests have been satisfied:

- there is a supply for consideration;
- the supply is made in the course or furtherance of an enterprise that is carried on by the supplier;
- the supply is connected with Australia; and
- the person making the supply is registered for GST or required to be registered.

Research funding is generally supplied to a researcher for a specific purpose or with certain conditions governing how the funding is to be used and expected outcomes. This arrangement constitutes a taxable supply and is therefore GST liable.

If there are no obligations tied to the funding and no other supply provided, GST will not be payable.

**What is an Input Tax Credit?**

An input tax credit is an amount allowed to offset GST included in the price you pay for an acquisition or the GST paid on an importation if it is for use in your enterprise.

You are entitled to input tax credits for acquisitions if:

- you are registered
- GST is included in the price of the thing you acquire, and
- you acquire the thing for a creditable purpose.

You acquire a thing for a creditable purpose if you acquire it for use in your enterprise.

Essentially, what this means is if a grantor pays GST on a research grant, they are able to claim it back as an input tax credit. The University will be entitled to a refund from the ATO for all input tax credits.

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**Example 1: To GST or Not To GST**

ACU is registered for GST and is awarded a grant of $5,500 from a local industry partner, Too Good to be True, to develop a process to assist in the analysis of knee soreness. As the funding has certain obligations attached to it, the University must pay GST.

There are two ways that the University will remit GST:

(a) If the original application did not include GST, the university will automatically remit 1/11th ($500 in this case) of grant funds to the ATO; or

(b) if the original application did include GST of 10% ($550 in this case) and a grand total of $6050 rather than $5500. This means that $550 GST liability has already been provided and the project funds of $5,500 remain intact.

*Please note that in example (a) & (b) the grantor is able to claim the GST as a refund of an input tax credit.*

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**Budget Preparation**

GST liability must be worked out on the total cost of the services provided, including salaries, travel, equipment etc. Do not assume that a granting body will automatically pay GST on top of your project costs. To avoid a reduction in funding, you must list GST as a separate line item in your budget.

**Example 2: Detailed Budget**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries/Wages</td>
<td>$50,000</td>
</tr>
<tr>
<td>Consumables</td>
<td>$5,000</td>
</tr>
<tr>
<td>Travel</td>
<td>$15,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>$5,000</td>
</tr>
<tr>
<td>Overheads</td>
<td>$11,250</td>
</tr>
<tr>
<td><strong>Sub Total</strong></td>
<td><strong>$86,250</strong></td>
</tr>
<tr>
<td>GST (10%)</td>
<td><strong>$8,625</strong></td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>$94,875</strong></td>
</tr>
</tbody>
</table>

*Note GST = 1/11th of $94,875.*
Individual components of the budget such as consumables, travel & equipment are net of GST. Do not include GST paid on the acquisition of such items in the budget, as the University will be able to claim a refund on the GST paid from the ATO.

**What Happens if My Application is Successful?**

Research Services will contact you concerning the terms of the contract, offer of acceptance, ethics clearance and related matters. Research Services informs the Division of Finance of the award once the agreement has been executed and regulatory/ethics clearances obtained. Finance will open an account or accounts and will inform the chief investigator relevant administrative contacts (e.g. faculty finance officer/manager) of the new account(s).

Finance will arrange any remittance of GST (1/11th of the grant) to the ATO. In the first instance, the GST liability will be held in a central suspense/holding account until payment to the ATO is required.

If your budget includes GST as a separate line item, the effect on the grantor and the University will be revenue neutral.

**Invoicing Requirements**

It is preferable for the grantor to provide funding as a single lump sum payment prior to research activity. If payment cannot be made up-front, then an instalment arrangement must be negotiated. The Research Agreement should include a payment schedule, which lists agreed dates of payment. Both alternatives enable the University to delay the remittance of GST.

In some cases the grantor will issue its own tax invoices in order to claim input tax credits. Such recipient created tax invoices may be issued by the entity to whom the taxable supply is made if the Commissioner has issued a written determination in respect of the relevant class of invoices.

The Division of Finance will issue invoices to grantors on receipt of payments. A grantor will not be able to claim a refund on GST unless an invoice has been issued.

Invoices prepared at the request of the grantor prior to payments will incur GST at the time of issue.

**Grant Expenditure**

Since 1 July 2000, the University is no longer tax exempt for purchases of goods and services. It is therefore important that you ensure that quotations on goods and services are GST-inclusive. The University will, in most instances, be able to claim input tax credits to the same value.

Expenditure charged to research project accounts will be net of GST. Where GST is charged, it will be posted to a Central GST Clearing Account.

**Do I Pay GST on Grants from Overseas?**

Research services provided by the University to an overseas recipient will be GST-free in the following cases:

<table>
<thead>
<tr>
<th>New South Wales and will require a transfer of funds.</th>
</tr>
</thead>
<tbody>
<tr>
<td>The University of NSW will invoice ACU for their portion of the funds. ACU's payment to the University of NSW will include 10% GST. ACU will then be able to claim a refund from the ATO, making the process revenue neutral.</td>
</tr>
</tbody>
</table>

**How Does GST Affect the Transfer of Funds from Institution to Institution?**

GST is payable on funding transferred between institutions. Only intra-institutional transfers are GST free.

**Example 3: Transfer of Funds**

Australian Catholic University has received funding for an ARC Large Grant project. Part of the research will be undertaken by the second chief investigator at the University of New South Wales and will require a transfer of funds.
1) Where the services relate directly with goods or land situated outside Australia;

2) Where the services are made to a non-Australian resident who is not in Australia when the service is provided; or

3) Where the service is provided to a person who is outside Australia and the service is used or enjoyed outside Australia.

Services will not be regarded as exported if the service provided by the University is directly connected with goods or land situated in Australia.

If a foreign company has a branch, a permanent establishment or an agency in Australia and the supply is for the purpose of the Australian company or the Australian company is involved in the supply unless the only involvement is minor (i.e. administrative), then services provided to the company are subject to GST because the company has a presence in Australia when the service is rendered. A permanent establishment means a place at or through which the company carries on business.

Example 4: Branch in Australia in relation to the supply
A United Kingdom (UK) company has a branch in Australia which provides a grant to ACU engaging them to undertake research. The UK company sends a director to Australia to provide information to ACU. The director uses an office at the Australian branch of the UK company to liaise with ACU and to supervise the research outcomes.

The involvement of the branch in Australia in relation to the supply is not limited to administrative tasks of minor nature. The UK company is in Australia in relation to the supply. Therefore the supply is not GST-free.

Example 5: Branch in Australia in relation to the supply of rights (IP)
ACU grants a licence to use some IP development from a research grant to a USA company. The USA company is incorporated in the United States of America, but also carries on business in Australia through a branch in Sydney. The licence is to be exploited by the American company in the US and in Australia through its branch. The American company is considered to be in Australia in relation to the supply because the supply is for the purposes of the branch in Australia and there it is not GST-free.

Example 6: Supply to off-shore branch of Australian company – in Australia but not in relation to the supply
An Australian company has a branch in the United States (US). The branch in the US enters into a contract to grant money to ACU to undertake research and provide the research to its US branch. The head office of the Australian company pays ACU the grant but has no other contact with ACU, i.e. the contact is of a minor administrative nature. ACU deals directly with the personnel in the US. The Australian company is in Australia but not in relation to the supply; therefore it is GST-free.

However, if the Australian Company contracts ACU to provide the research to its branch in the US and the head office in Australia liaises with ACU providing detailed information that will assist in developing the research outcomes for the US branch, then the Australian company is in Australia in relation to the supply and it will not be GST-free.

It is important to have the full and correct name of the company and its location in the grant contract. This will ensure that there is no confusion regarding the entity’s residency status for the supply for GST purposes.

Most companies that have a permanent establishment would be able to register for GST purposes. Therefore, the company will receive an input tax credit for any GST it pays.

How Do I work Out GST on In-Kind Contributions?
Where a grant is made in-kind, each party makes a taxable supply to each other. Each party needs to account for GST payable on what they are supplying. Both parties will receive a refund of GST on the transactions. No GST will need to be remitted to the ATO if the paper entries are processed in the same tax period. Both parties will need to issue a tax invoice to each other.

Example 7: In-Kind Contributions
ACU undertakes research as a contribution to a collaborative research project with a private nursing home. If the contribution was in cash, then only one invoice would be raised by the
If the contribution is in-kind, then both parties will need to issue invoices. GST would be payable by ACU as 1/11th of the agreed value of the in-kind contribution. The nursing home provider would also pay 1/11th of the agreed value of the undertaking by the University to carry out the research.

The agreed value may be negotiated between the parties or be based on the salary cost, laboratory space and use of equipment incurred in undertaking the research.

**Definition of a Gift**

The term ‘gift’ is not defined under the GST Act. It is therefore necessary to employ the leading income tax case (McPhail Test: http://law.ato.gov.au/atolaw/view.htm?docid=GST/GSTR200011/NAT/ATO/00001) to ascertain whether a grant is considered a gift.

For a grant to be considered a gift, the following requirements must be met:

(a) the grant must be voluntarily transferred by grantor to grantee and not be the result of a prior contractual obligation to transfer the grant; and

(b) the grantor must not receive an advantage of a material character by way of return in making the grant. Recognition of the grantor for making the grant is not classed as an obligation.

Gifts normally arise from benefaction and are the proceeds from the detached and disinterested generosity of the grantor.

If a grantor makes a grant to the University to undertake specific research and requires a final report, the findings of which would be used to enhance business practices, the requirements of a gift would not be met.

Provision of financial reports does not constitute a material benefit.

**Do I Need to Pay GST on a Research Grant That Commenced Before 1 July 2000?**

All Research Agreements entered into after 7 July 1999 were subject to GST if they spanned 30 June 2000. If your research project was in this category, the relevant Research Agreement should have been varied to include a GST clause.

**Example 8: GST on a Pro-Rata Basis**

ACU and Bright Spark signed an agreement on 31 October 1999 to fund a $5,000 research project into the development of a new survey instrument in psychology. The project commenced on 1/1/2000 and concluded with the provision of a final report on 31/12/2000.

As the project spanned 30/6/2000, the University had to remit GST on the second six months of the project. The GST payable is therefore:

\[
\frac{(5,000/11\text{th})}{2} = 227.27
\]

In some cases research grants entered into prior to 8/7/1999 were GST free.

If you are unsure whether your contract required GST, please see Appendix 1.

**Is there a requirement for a GST Clause in Contracts between ACU and External Grantors?**

Yes. All contracts and research agreements must include a GST clause. Please contact Research Services for information on GST clauses.

**Who Do I Contact for Information on the GST?**

Rajan Wijey, Division of Finance, ext:2945

**Important Links:**

The University has a GST page that staff can access via: http://www.acu.edu.au/staff/services/finance/goods_and_services_tax/

The web address for the Australian Taxation office is: http://www.ato.gov.au/

The ABN for the University is 15 050 192 660.

See appendices 1 – 4 below for further information.
Appendix 1:

<table>
<thead>
<tr>
<th>GST Status of Grantor</th>
<th>Non-reviewable contract</th>
<th>Reviewable Contract</th>
</tr>
</thead>
</table>
| Grantor entitled to full input tax credit | Contract entered prior 8/7/99 - GST free up to 30/6/2005  
|                                        |                                                                                         | GST free until earlier of (1) first opportunity to review, or (2) 1/7/2005  
|                                        |                                                                                         | (If opportunity for review not exercised – GST from designated date of review)    |
| Grantor not entitled to full input tax credit | Contract entered prior 2/12/98 – GST free up to 30/6/2005  
|                                        | Contract entered on/after 2/12/98 - GST from 1/7/2000                                  | Contract entered prior 2/12/98 for supplies after 30/6/2000  
|                                        |                                                                                         | GST free until earlier of (1) first opportunity to review, or (2) 1/7/2005  
|                                        |                                                                                         | (If opportunity for review not exercised – GST from designated date of review)    |
|                                        |                                                                                         | Contract entered on/after 2/12/98 – GST from 1/7/2000                                |
| Full payment received before 2 December 1998 |                                                                                         | GST Free                                                                            |

Appendix 2 - Specific GST advice:

**ARC Discovery – Projects**

Clause 5 (Payment of Funding) from the ARC Funding Agreement

The Commonwealth will pay to the Institution/Organisation, by way of financial assistance in accordance with the Act, the amount set out in Schedule A, which is exclusive of GST, where ‘GST’ has the meaning as given in Section 195-1 of the A New Tax System (Goods and Services Tax) Act 1999. For government-related entities (such as government funded university or research institute) there will be no GST payable on the funding transaction between the entity and the ARC. Non-government-related entities, which are liable to pay GST on this transaction with the ARC, will receive a base-funding amount and an additional amount to cover the GST.

**ARC Linkage - Projects**

A number of Australian Universities, sought a Private Ruling in relation to the tax status of contributions from Collaborating Organisations (Industry Partners) to ARC Linkage – Projects Grants. On 17 January 2005 the Australian Tax Office provided the following advice:

The funding that is provided to the University by the ARC to undertake a research project under the Program is not a payment that is specifically covered by an appropriation under an Australian law and therefore is provision of consideration under paragraph 9-15(3)(c) of the GST Act.

The cash and in-kind contribution that is provided by the Industry Partner to the University in conjunction with the carrying out of a research project under the Program is not consideration for a taxable supply by the University to the Industry Partner as no supply is being made by the University.

**NHMRC Grants**

The NHMRC provided the following advice to institutions on 7 March 2005:

*Update of Recipient Created Tax Invoice (RCTI) Agreement*

As a result of the ATO issuing a new GST public ruling about what is an appropriation GSTR2004/5 on 30 June 2004 the NHMRC has received advice that grants under agreement/conditions will be consideration for taxable supplies (obligations) by funding recipients to the Department of Health and Aging (DHA) where the recipient in each case is GST registered or required to be. Funding therefore should be grossed-up with DHA claiming credits either on the basis of
| **Goods and Services Tax Clause – to be included in all contracts** | For the purposes of this clause: “Act” means A New Tax System (Goods and Services Tax) Act 1999 and A New Tax System (Goods and Services Tax) Transition Act 1999; “GST” means any tax imposed by or through the Act on Supply (without regard to any input tax credit). “Supply” means a taxable supply under the Act. “TPA” means New Tax System (Trade Practices Amendment) Act 1999 as may be enacted (and any legislation submitted for replacing or amending that Act).

The Parties acknowledge and agree that the Funding is provided exclusive of GST. If GST is imposed on a Supply under this Agreement then the Party that is the supplier has the right to increase the consideration payable on the Supply by an amount equal to the GST imposed but only to the extent that it does not constitute price exploitation as defined in the TPA and the supplier shall be entitled to recover the increased amount from the recipient of the Supply.

The Parties agree to do all things, including but not limited to, the provisions of invoices and other documentation, that may be necessary or desirable to enable or assist another Party to claim any input tax credit or refund available in relation to any GST paid or payable under this clause.

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**Appendix 3 - Example of Standard GST Clause:**

**20. GOODS AND SERVICES TAX**

20.1 For the purposes of this clause:

“Act” means *A New Tax System (Goods and Services Tax) Act 1999* and *A New Tax System (Goods and Services Tax) Transition Act 1999* and any related tax impositions Act (whether imposing tax as a duty of Customs Excise or otherwise) and includes any legislation which is enacted to validate recapture or recoup the tax imposed by such Acts.

“GST” means any tax imposed by or through the Act on Supply (without regard to any input tax credit).

“Supply” means a taxable supply under the Act

“TPA” means *New Tax System (Trade Practices Amendment) Act 1999* as may be enacted (and any legislation submitted for replacing or amending that Act).

20.2 The Parties acknowledge and agree that if GST is imposed on a Supply under this Agreement then the Party that is the supplier has the right to increase the consideration payable on the Supply by an amount equal to the GST imposed but only to the extent that it does not constitute price exploitation as defined in the TPA and the supplier will be entitled to recover the increased amount from the recipient of the Supply.

20.3 The Parties agree to do all things, including but not limited to, the provisions of invoices and other documentation, that may be necessary or desirable to enable or assist another Party to claim any input tax credit or refund available in relation to any GST paid or payable under this clause.
Appendix 4

Australian Catholic University – TAX STATUS

(1) The University is registered for GST purposes. The University’s Australian Business Number is 15 050 192 660.

(2) The University has an Income Tax exemption effective 1 July 2000

(3) The University has been endorsed by the Australian Taxation Office as a charitable institution.

(4) The University has also been endorsed by the Australian Taxation Office as a deductible gift recipient Items 1 and 4, section 30-15 of the Income Tax Assessment Act 1997.

(5) Eligible gifts and donations to the University may be claimed as an income tax deduction under Section 30-15 of the Income Tax Assessment Act (1997).