



## Are grants and subsidies taxable?

Common Grazings Committees and Sheep Stock Clubs may be in receipt of various grants and subsidies, the tax implications for the club are considered below.

If the club is a mutual/members' organisation and does not pay tax on its income because it satisfies the relevant conditions, it shouldn't make any difference to the taxability of the organisation if it retains the Agri-Environment Climate Scheme (AECS) income rather than distributing it to members. The Committee should ensure reserves are reasonable however, i.e. held to meet working capital requirements.

If the club is not a mutual (e.g. if it has shareholders with different voting rights) but is a dormant company and not trading, the grant income doesn't relate to trading activities and is not taxable.

For organisations which pay corporation tax on their income, AECS payments are likely to be split between:

- Annual recurrent management and
- Capital projects

The annual recurrent management payments will be taxable where they relate to a taxable trading activity. Payments which relate to capital projects are not directly taxable but may reduce the amount claimable against trading profits for capital allowances, depending on what the payments are for. Capital grants under the Crofting Agricultural Grant Scheme will be treated similarly.

Payments under Forestry Grant Schemes are generally not taxable. Any payments that compensate the club for loss of agricultural income will be taxable however.

Sheep stock clubs will generally be trading for tax purposes. Subsidies which are dependent on having stock, such as the Less Favoured Area Support Scheme, Basic Payment Scheme and Scottish Upland Sheep Support Scheme, will therefore be taxable as trading profits.

Where HMRC have agreed for the Common Grazing Committee & Sheep Stock Club to be reported together, on the basis of common control, the income of the Common Grazings Committee is likely to be taxable.

It is less clear where the Common Grazing Committee & Sheep Stock Club are controlled by separate committees, albeit with some crossover and the Sheep Stock Club being the biggest shareholder of the Common Grazing, and the Common Grazing Committee receives subsidies under schemes such as AECS. Committees should seek further advice in such cases, particularly if there has been changes in members or new income streams.

Depending on their other income, club members should note that they as individuals may be liable to pay income tax on the distributions / dividends they receive, even where this is derived from a subsidy that is not taxable on the club.