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Technical Paper: **Accounting and Tax Treatment for the Business Employee Support and Transfer of Cash (Best Cash) Grant and the Supporting Employees with Transfer of Cash (SET Cash)**

TECHNICAL ADVISORY

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Accounting and Tax Treatment for the Business Employee Support and Transfer of Cash (Best Cash) Grant and the Supporting Employees with Transfer of Cash (SET Cash)

Abbreviations and Glossary of terms

AG	Accountant General
Annualized Pay	The salary or wages of an employee whose income is below the income tax threshold of $1.5M per annum. For the purposes of the BEST Cash Programme, this is translated into the basic pay or gross emoluments received in cash as shown on the S01.
Base Month	The month in which the eligible employee must have been employed prior to the application for the BEST Cash grant. In the case of the effective date of the initial grant period of April –June, the base month is March 2020. In the case where the grant period was extended to December 31st, the base month is August 2020.
BEST Cash	Business Employee Support Transfer of Cash
CARE Programme	COVID Allocation of Resources for Employees – A temporary sash transfer programme to individuals and businesses to cushion the impact of the COVID-19 Pandemic
Eligible Employee	An employee of the entity whose net taxable income is less than or equal to the income tax threshold of $1.5 Million per annum
GOJ	Government of Jamaica
IAS	International Accounting Standard
IFRS	International Financial Reporting Standard
MoFPS	Minister of Finance and the Public Service
SET Cash	Supporting Employees with Transfer of Cash
S01	The income tax form designated for the monthly statutory remittance of payroll deductions.
TAJ	Tax Administration Jamaica
The Applicant	The employer or entity who is making the application for the grant

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Accounting and Tax Treatment for the Business Employee Support and Transfer of Cash (Best Cash) Grant and the Supporting Employees with Transfer of Cash (SET Cash)

Purpose

The purpose of this Technical Advisory is to provide guidance on the accounting and tax treatment of the Business Employee Support and Transfer of Cash (BEST Cash) grant and the Supporting Employees with Transfer of Cash (SET Cash). These grants were two of the components of the COVID Allocation of Resources for Employees (CARE) Programme which is a Government of Jamaica initiative introduced in 2020 to alleviate the impact of the COVID-19 pandemic.

Objective

In ensuring that the initiative is effectively and efficiently administered, the objectives of this Advisory are:

(i) To provide clarity to the stakeholders on the accounting treatment and tax treatment of the BEST Cash grant by:
- illustrating the accounting entries that are required to record the transaction; and
- indicating the tax treatment as it relates to the income tax returns

(ii) to provide awareness as to the purpose of the grant and obligation of the employer in implementing the initiative.

(iii) To provide clarity on the tax implication of the SET Cash Grant

References

The following references were utilized as literature reviews in preparation of the Advisory

- Ministry of Finance and the Public service "We Care" Brochure (www.wecare.gov.jm)

- Technical Advisories –TAJ website (https://www.jamaicatax.gov.jm)
  - **Treatment of COVID-19 Cash Grants**
  - **Treatment of COVID-19 BEST CASH GRANT**
  - **Treatment of COVID-19 BEST & SET CASH GRANTS**

- KDH Media Publication-Montego Bay –Kerwin Hamil (MSc, BBA (hons), CPA, ABV, FCA, CGMA, CVA(Des)), Programme Director, School of Business, UTECH Jamaica, Western Campus –(https://kerwindhamil.com/kdhmedia/the-best-is-far-from-the-best/)

- IFRS 20, Accounting for Government Grants (**htpps://www.ifrs.org)**

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Background

The BEST Cash Programme was instituted to provide temporary cash transfer to registered businesses operating within the tourism sector and who are registered with the Tourism Product Development Company (TPDCO). The grant was provided to these businesses based on the number of workers that they kept employed as of March 10, 2020 through December 31, 2020 whose net income was less than or equal to the income tax threshold of $ 1.5 million per annum. The programme was subsequently extended to 2021.

Employers were reimbursed for the months that they retained an employee at a gross minimum payment if Nineteen Thousand, Three Hundred and Ninety-two Dollars ($19,392) per month (equivalent to $18,000 after statutory deductions).

For employees retained between April 9, 2020 and August 31, 2020, an applicant (employer) would qualify for a maximum of nine (9) grant payments per retained employee (i.e. April – December 2020). For Employees retained between September 1, 2020 and December 31, 2020, an applicant (employer) would qualify for a maximum of four (4) grant payments per retained eligible employee. Applications for the Best Cash deadline was at December 15, 2020.

The extension to 2021 resulted in a maximum of three (3) additional grant payments for employees retained between April 2021 and June 2021.

Issues with the BEST Cash Component

Operators in the tourism industry (The Employers) encountered difficulties in administering the programme some of which are outlined below:

I. Beneficiary of the BEST Cash Grant

In the initial stage, some employers failed to realize that that BEST Cash was a benefit to them (the employer) rather than the employee as opposed to the other component of the CARE Programme, the SET Cash which was a benefit to the employee who was laid off by virtue of COVID-19. The difference in interpretation affected treatment of the Grant for income tax purposes.

II. Identifying the criteria for Eligible Employee

Most employees in the tourism industry receive basic pay, commissions, gratuities and other benefits in kind which are included in the total emoluments. It was not clear whether the qualification criteria for employees would be the total emoluments or basic emolument (Basic Pay). It therefore inhibited the ability of some operators/employers to appropriately project the possible cash receipt from

the Government of Jamaica but also the appropriate taxes and statutory deductions that should be computed on the emoluments**.**

III. Operationalization of the Request from the MoFPS

The expectation of the MoFPS was that the $18,000 per month should be treated as gross and was to be eventually paid out as net as no payroll taxes should be applied to the amount. The issue was that if the amount was grossed up to $19,392.00 per month the MoFPS would have exceeded the initial amount allocated to the BEST. This position, along with other uncertainties (while impacting resources), also resulted into a number of iterations of the payrolls of these entities in their effort to comply with the MoFPS' s expectation and the tax legislation simultaneously.

IV. Collateral negative impact in the initial stage

Some employers were exposed to the possibility of late filing and late payment penalties due to delays in arriving at a definitive understanding of the treatment of the grant. Misapplication of the treatment may have led to not filing or under reporting the appropriate payroll taxes to TAJ.

Eligibility criteria for a BEST Cash grant

	Criteria	Means of Verification
1	Valid Tourist Board Registration	Valid as of April 30, 2020 as evidenced by registration data supplied by the Tourism Product Development Company (TPDCO).
2	Requirement for minimum number of eligible employees	Employer will be ruled eligible for the month of claim only in the event of having a minimum of one (1) eligible employee
3	Evidence of the employee being on the payroll during the month of the start of the program or the month of August 2020 for applications made after November 4, 2020	Evidence of an employee's employment is verified through one of the following means: (i) For applicants where the employee is retained between April 9, 2020 and August 31, 2020, employees must have been employed as at the base month of March 10, 2020. Evidence of this is based on the Applicant (Employer) submission of a March 2020 S01 to TAJ. (ii) For Applicants where the employee is retained between September 1, 2020 and December 31, 2020, the employee must have been employed as at the base month of August 1, 2020 for which evidence is to be established based on the employer's submission of an August 2020 S01 to TAJ. These Applicants can qualify

	Criteria	Means of Verification
		for a maximum of four (4) months grant payments per retained eligible employee.
4	Employee annual pay estimated to be less than $1.5 million	Employee is projected to receive annualized pay of $1.5 million or less which is verified from information registered on the Employer S01 submitted from the **Base Month** (March or August 2020) as stated in item 3.
5	Evidence of retaining the employee on the payroll for the month(s) of claim.	Employee must be registered on the S01 submission for the month of claim. In the event that an employee is also registered on a P45 document (having been laid off at the end of the month), the employer will still receive the Best Cash benefit for the month of employment and claim.
6	Minimum Emolument of $19,392 paid to the employee for the month of claim	Evidence is to be obtained from the S01 filed for the month of claim. Refer to information in the Appendix section of this document on the Statutory Obligations resulting from payment of this minimum amount of $19,392.00.

Calculation of the Projected Annualized Pay

The issue of what constitutes the projected employee annualized pay so that the applicant or employee would meet the criteria for the grant was part of the initial difficulties that were faced in the industry. In order to provide clarity and consistency, the TAJ in collaboration with the MOFPS has mandated that only the Basic Pay earnings as recorded in the 'Gross Emoluments in Cash' column of the S01 form would be used in the calculation.

Accordingly, the projected annualized pay of $1.5 Million or less is calculated using the formula:

(Gross emolument in cash – Employee NIS – Superannuation) ÷ number of NIS Weeks × 52) ≤ $1,500,096.00

It is important to note that the Basic Pay earnings are recorded on the S01 Schedule A in Column F as *"Gross Emoluments Received in Cash".* Gratuities and other one-off payments, bonuses, commissions etc. are to be recorded in the *'Gross Emoluments in Kind'* column of the S01

Undertaking by the MoFPS

Based on an understanding between the MoFPS and the tourism Industry:

(i) The eligible employee should receive a minimum gross taxable emolument of $19,392.00 per month which will be reimbursed to the employer in the form of a grant amounting to a minimum pay of $18.000.00 net of the statutory deductions.

(ii) The Government of Jamaica (GOJ) has agreed to pay the employer and employee contributions in respect of the $18,000 net payment being reimbursed in the form of a grant for each retained employee.

(iii) The $18,000 when grossed up, amounts to $19,392.90.

NB. The grant is not taxable in the hands of the employer for both Income Tax and GCT. The liability of $3,796.65 is a GOJ liability. This amount is NOT owed by the employer.

Obligations of the Applicant/Employer

I. Employers should file taxes in the usual manner as they did prior to the introduction of the COVID-19 BEST Cash Grant, outlining the total emoluments and the total payroll taxes.

II. The following payroll taxes should be reported/recorded per month for each qualified employee under the BEST Cash Programme for the April 2020 to March 31,2021. These amounts however will be paid by the GOJ/MOFPS through the AG over to TAJ.

III. Table 1 – Statutory Deductions April 2020 to September 2021

Statutory Deductions	Employee	Employer
NIS	$581.79	$581.79
NHT	$387.86	$581.79
Education Tax	$423.25	$658.38
HEART	-	$581.79
Total	**$1,392.90**	**$2,403.75**

IV. The employer should pay over all other payroll taxes with the exception of the above taxes for each of the qualified employees (both the employer and employee's portion). In effect, the employer would only pay the net taxes (i.e. total payroll taxes filed in the usual manner less the amounts paid by the MoFPS).

V. The employee should be paid $ 18,000.00 net of taxes.

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Operation of the BEST Cash Grant

Gross Pay		Employee Tax	Employer Tax	Best Cash Pay-out	Total Pay To TAJ
19,392.90	NIS	581.79	581.79		
	NHT	387.86	581.79		
	ED. Tax	423.25	658.39		
	HEART	0.00	581.79		
	Total Tax	**1,392.90**	**2,403.75**	19,392.90	3,796.65
Net Pay 18,000.00					

The Process

1. A minimum Gross Cash payment of $19,392.90 must be made to retained employees.
2. To effect payment, the Employer shall account for the Grant as in the table above.
3. Once the payment is run through the payroll the net figure will be $18,000.00.
4. The issue of paying more than the $18,000 over to the employer will be resolved as the GOJ will pay all taxes (employer and employee) directly to TAJ.
5. Total paid to TAJ by the AG = $ 3,796.65 ($1,392.90 +$2,403.75)

NB: None of the statutory contributions payable by MoFPS on behalf of the employer and employee will constitute eligible contributions for the purposes of computing Employment Tax Credit (ETC).

Accounting for the BEST Cash Grant

International Financial Reporting Standard (IFRS) IAS 20

In accordance with the International Financing Standards, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, the above grant met the criteria to be recognized as a revenue grant. Consequently, the said accounting standard requires that the

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grant is to be recognised whenever there is reasonable assurance that the entity will comply with the conditions of the grant and the said grants are received.

The grant is therefore to be recognized as revenues thereby matching the related expenses which in this case are payroll costs (salaries and employer's portion of payroll taxes).

In other words, the Grant is treated as revenue under *Other Revenue* in the Profit & Loss Account and the corresponding expense as *Payroll costs*. In the Tax Computation Statement, the same amount is subtracted as *non-tax revenue* and is added back as *payroll expense* reimbursed. This treatment results in a tax neutral effect.

In essence, there is no material effect on the entities financial statements. **(See illustrations)**

Tax Implications of BEST & SET Cash Grants

Corporate Income Tax (CIT)

The Grant payments are to be treated as Non-Taxable Revenue as such there will be no impact on the Corporate Income Tax.

General Consumption Tax (GCT)

The funds received are Grant payments and would not constitute a taxable supply for GCT proposes.

Implications for Late filing penalties and Interest

The entities in receipt of the BEST Cash Grant are required to file and pay their monthly statutory returns on the fourteenth day of each month. Any charges as a result of late filing and payment must be paid by the employer.

It must be noted that charges incurred that are directly related to the late payment of the portion payable by the Government of Jamaica will be discharged. In addition to the discharge of such portions, no compliance action will be enforced in relation to same**.**

SET Cash

There are **NO** tax obligation for the beneficiaries of the SET Cash Grants.

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ILLUSTRATIONS[1]

The following journal entries may be made for the qualified employees. The examples are based on the entries for a single employee however, in reality these will be aggregated.

Journal Entry #1	**Debit**	**Credit**
Wages & Salaries	$ 19,392.90	
NIS Payable		$ 581.79
NHT Payable		$ 387.86
Ed. Tax Payable		$ 423.25
Wages Payable		$ 18,000.00
Being entry to record wages & Salaries for employee		

Journal Entry #2	**Debit**	**Credit**
Wages & Salaries	$ 18,000.00	
Bank		$ 18,000.00
Being entry to record payment of wages and salaries to employee		

Journal Entry # 3	**Debit**	**Credit**
GOJ Grant Receivable	$ 19,392.90	
GOJ Grant Revenue		$19,392.90
Being entry to record recognition of GOJ Grant Revenue per employee		

Journal Entry # 4	**Debit**	**Credit**
Bank	$ 18,000.00	
NIS Payable	$ 581.79	
NHT Payable	$ 387.86	
Ed. Tax Payable	$ 423.25	
Wages Payable		$ 19,392.90
Being entry to record the payment of GOJ Grant to the employer		

[1] KDH Media Publication-Montego Bay –Kerwin Hamil (MSc, BBA (hons), CPA, ABV, FCA, CGMA, CVA(Des))

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Journal Entry # 5	Debit	Credit
Payroll Taxes	$2,403.75	
NIS Payable		$ 581.79
NHT Payable		$ 581.79
Ed. Tax Payable		$ 658.38
HEART Payable		$ 581.79
Being entry to record employer's portion of Payroll Taxes		

Journal Entry # 6	Debit	Credit
GOJ Grant Receivable	$2,403.75	
NIS Payable		$ 581.79
NHT Payable		$ 581.79
Ed. Tax Payable		$ 658.38
HEART Payable		$581.79
Being entry to record the GOJ Grant receivable for employer's portion of payroll taxes which are to be paid and written off by MOF		

Journal Entry #7	Debit	Credit
NIS Payable	$ 581.79	
NHT Payable	$581.79	
Ed. Tax Payable	$ 658.79	
HEART Payable	$581.79	
GOJ Grant Receivable		$2,403.75
Being entry to record the reversal of GOJ Grant receivable on the date the amounts are removed from the portal of the Taxpayer.		

There are two options to account for the employer's portion of the payroll taxes: Both options are acceptable by the IFRS.

1. Net off the monthly grant revenues against the payroll expenses which results in a neutral effect
2. Recognise a separate grant revenue along with the related payroll taxes expense of $,2403.75 per employee.

Note that where option 2 is adopted, the journal entries #5, #6 and# 7 will be relevant.

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