



Inland Revenue
Te Tari Taake

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Grants and subsidies

A tax guide for organisations that receive a grant or subsidy

Introduction

This guide tells you about some of your tax responsibilities if you receive a grant or subsidy to help with an activity you're running individually or with a group.

It's very important you understand these responsibilities as penalties may apply if you do not comply with them.

You'll find a list of other guides on page 16 that will give you more information that you may need.

We provide free tax advisory services if you need more help with your tax responsibilities on your grant or subsidy (page 15).

ird.govt.nz

Go to our website for information and to use our services and tools.

- **Log in or register for myIR** - manage your tax and entitlements online.
- **Calculators and tools** - use our calculators, worksheets and tools, for example, to check your tax code, find filing and payment dates, calculate your student loan repayment.
- **Forms and guides** - download our forms and guides.

How to get our forms and guides

You can get copies of our forms and guides at ird.govt.nz/forms-guides

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Part 1 - Grants and subsidies

What is a grant or subsidy?

A grant or subsidy can be a payment made to an individual or organisation to meet some of the expenses in carrying out business activities or in starting up a new business. It can also be a payment made to lower income families to help make childcare more affordable. Some examples are:

- job creation incentives such as Flexi-Wage subsidy
- new business opportunities such as Flexi-Wage self-employment subsidy
- research grants to determine the feasibility of a new type of business
- one-off grants for purchasing assets
- grant-related suspensory loans - these are interest-free for a specified period, and are then converted to grants if and when the loan conditions are fulfilled
- childcare or out-of-school care and recreation (OSCAR) subsidies.

Note

A gift may be different from a grant or subsidy. Generally, an unconditional gift is a donation or payment made voluntarily to any person or organisation for them to use as they see fit, where there is no benefit to the donor, or to anyone associated with the donor.

Example 1

A business gifts \$20,000 to a hospice to use as they wish. This is an unconditional gift, because the business doesn't stipulate how the money is used.

Example 2

A business gifts \$20,000 to a hospice so the hospice can fix its leaky roof. The hospice can decide how the money is spent, and doesn't have to do anything for the business in return for the payment. In most cases, this is also an unconditional gift.

Example 3

A business gifts \$20,000 to a hospice so the hospice can fix its leaky roof. The payment is made with agreement that, if the money isn't used to fix the roof, the business can ask for the \$20,000 back. This isn't likely to be an unconditional gift, and could be a grant or a loan.

Examples of some unconditional gifts are:

- donations
- receipts from door-to-door appeals and street collections
- bequests
- voluntary school fees (but not school activity fees).

If you're unsure about the nature of a payment, consult your tax advisor.

Who pays a grant or subsidy?

Grants and subsidies can be paid out by government departments and local authorities. They can also be paid out by private organisations.

Some government departments that provide grants are:

- Work and Income
- Sport New Zealand
- Department of Internal Affairs
- Te Puni Kōkiri
- local councils
- Creative NZ.

Some non-government sources that provide grants are:

- Power board charitable trusts
- local community trusts
- Pub charity
- local hotel charitable trusts
- private charitable trusts.

Can anyone receive a grant or subsidy?

A grant or subsidy can be paid out to an individual, business or organisation. There are usually criteria or conditions that need to be met before you're eligible for a payment.

How is a grant or subsidy taxed?

The tax implications of receiving a grant or subsidy can be quite complicated. It can depend on who you received the payment from and what your taxable status is. The following information is a general guide only. You can arrange an appointment with our advisors (page 15) to get further information about your specific circumstances.

Government grants and subsidies

There are special GST and income tax rules for government grants and subsidies paid by the Crown or a public authority.

Income tax

A business which receives a government grant is not liable to pay income tax on the grant, but the business is not entitled to an income tax deduction for any expenditure which is funded using the grant.

GST

GST registered persons are generally required to return GST on government grants and subsidies that are received in relation to their taxable activity.

There are exceptions where the recipient is not liable to return GST, for example where grants are used overseas for international development and for the Ministry of Social Development's COVID-19 wage and leave subsidies.

These exceptions are listed in schedule 2 of the Goods and Services Tax Act 1985.

Non-government grants and subsidies

Income tax

If you have to pay income tax, the following special tax rules apply to grants and subsidies.

Type of payment	Liable for income tax	Not liable for income tax
Grant or subsidy based on income received, forgone or a deficiency	✓	
Payment towards an expense incurred in earning gross income (except for government grants)	✓	
Payment to offset capital or expenses that don't produce income		✓
Flexi-Wage self-employment subsidy used for private costs, eg groceries	✓	
Payment to offset the cost of, or reinstate, a capital asset used in producing gross income		✓*
Any surplus from a grant or subsidy that goes into an organisation's general fund	✓	

* Any claim made for depreciation must be based on the cost of the asset less the value of the grant or subsidy.

Example 1

A subsidy received by a farmer from a flood relief trust fund is liable for income tax because it replaces trading stock with cash just as if that stock had been sold in the ordinary course of business.

Example 2

A subsidy to restore farm land damaged by floods is treated as a capital receipt because it's used to reinstate an asset of a capital nature.

Note

To work out the income tax treatment of a grant or subsidy, each case must be assessed on its own merits.

If an organisation receives a specified suspensory loan and repayment is "forgiven", this amount becomes gross income. The amount forgiven is divided equally between the year it's forgiven, and the next two years.

Expenses reduced by the amount of the payment

The Flexi-Wage self-employment subsidy and Self-Employment Start-up are paid to help get business activities started. The Flexi-Wage self-employment subsidy is a short-term allowance to help with costs while you're getting started. The Self-Employment Start-up is a one-off payment at the start to help with set-up costs, such as buying furniture or the first lot of stock.

The subsidy can be used for private or non-business related purposes, but the grant cannot. For tax purposes it's important to know what type of payment was made.

Examples

1. Tim receives a Flexi-Wage self-employment subsidy of \$150 per week. He's not registered for GST. Over 12 months this works out at \$7,800. Tim uses the subsidy to pay for part of the rent on the shop which includes GST.

Total shop rent for 12 months	\$ 10,400
Less Flexi-Wage self-employment subsidy for 12 months	<u>\$ 7,800</u>
Rent deductible as an expense for income tax	\$ 2,600

2. If Tim was registered for GST, both the subsidy and the shop rent paid would be GST inclusive. Both amounts would be reduced by the GST, which would already have been accounted for in the GST return.

Total shop rent for 12 months	\$ 10,400.00
Less GST ($\times 3 \div 23$)	<u>\$ 1,356.52</u>
	\$ 9,043.48
Flexi-Wage self-employment subsidy	\$ 7,800.00
Less GST ($\times 3 \div 23$)	<u>\$ 1,017.39</u>
	\$ 6,782.61
Amount deductible as an expense for income tax	\$ 2,260.87

Grants used for capital expenditure

If you receive a grant for the specific purpose of buying an asset, the grant isn't taxable for income tax purposes. The value of the asset for depreciation purposes will be reduced by the amount of the grant.

Examples

1. Lucy isn't registered for GST and receives a grant of \$5,200 at the beginning of the income year. This grant is to help her buy manufacturing equipment. The total cost of the equipment is \$10,000.

Cost of machinery	\$ 10,000
Less grant received	<u>\$ 5,200</u>
Cost for depreciation purposes	\$ 4,800
12% diminishing value depreciation	<u>\$ 576</u>
Closing book value	\$ 4,224

2. If Lucy was registered for GST, the following would apply:

Grant received	\$ 5,200.00
Less GST ($\times 3 \div 23$)	<u>\$ 678.26</u>
Balance of grant	\$ 4,521.74
Cost of machinery	\$ 10,000.00
Less GST ($\times 3 \div 23$)	<u>\$ 1,304.35</u>
	\$ 8,695.65
Deduct balance of grant	<u>\$ 4,521.74</u>
Cost for depreciation purposes	\$ 4,173.91
12% diminishing value depreciation	<u>\$ 500.87</u>
Closing book value	\$ 3,673.04

Part 2 - GST (goods and services tax)

Grants and subsidies received from a Crown or public authority are liable for GST if the recipient is, or should be, registered for GST.

Note

Some grants made to non-profit bodies fall within the meaning of an unconditional gift (page 4), especially if given by charitable trusts. Refer to the explanation of unconditional gifts to see if this is the case. Contact us if you are still not sure.

Where the grant is a gift GST won't have to be returned.

An exception is grants intended for overseas use for international development. You'll have to return GST only on the portion of the grant allocated for administration and capacity building in New Zealand.

Will you need to register?

GST is a tax on most goods and services in New Zealand. It's generally charged and accounted for at a rate of 15%. You or your organisation **must register** for GST if you are carrying out a taxable activity and any of these conditions are met:

- Your total turnover exceeded \$60,000 in **the last** 12-month period. Include any grant or subsidy received and barter transactions made when adding up income and sales to work out total turnover.
- Your total turnover (including any grants or subsidies) in the next 12 months is expected to be **more than** \$60,000.
- You charge GST in your prices. In this case you must register even if your turnover is less than \$60,000.

You may not need to register for GST if your turnover exceeded \$60,000 in the last 12-month period because you or your organisation received a one-off grant for capital expenditure.

Example

A marae normally receives koha and a small amount of fund-raising income. This totalled \$7,000 in the last 12-month period so it's not registered for GST. The marae committee will be receiving a one-off grant of \$55,000 to replace the marae kitchen building. Because this is capital expenditure the marae doesn't need to register for GST.

If a similar situation applies to you or your organisation and you're not sure if you should register contact us for more information.

If you're required to register for GST, you must apply within 21 days of becoming liable. If the grant you've applied for means your turnover will go over \$60,000, register as soon as possible after the grant is confirmed.

You may register voluntarily if your income is less than \$60,000.

You need a myIR Secure Online Services Account to register for GST. Go to www.ird.govt.nz/myIR to find out more.

Grants or subsidies for wages

If you or your organisation are paid a grant or subsidy for wages, then this will include GST. If you're registered or liable to be registered for GST you must include it as income in your GST return.

Childcare centres, kohanga reo and GST

Some parents can apply to Work and Income for a subsidy to help them pay for childcare. Childcare organisations must endorse the application and then the parent must apply to Work and Income for a childcare or OSCAR subsidy.

Work and Income direct credits the subsidy money to the childcare organisation on behalf of the parents who are entitled to it. Subsidies direct credited to childcare organisations are not unconditional gifts. Childcare organisations registered or liable for registration for GST, must account for GST in their return when they receive these subsidies from Work and Income.

Part 3 - Employer responsibilities

If the subsidy you're receiving is a wage subsidy, such as Flexi-Wage subsidy, you must be registered with us as an employer. Once you're registered, you'll receive a new employer's letter which outlines your responsibilities.

Some of these are:

- You must deduct PAYE from your employees' wages each payday and pay the deductions to us either once or twice a month, depending on the total amount of PAYE you deduct.
- You must pay FBT (fringe benefit tax) on any fringe benefits ("perks") you give to your employees.
- You must provide KiwiSaver information and make KiwiSaver deductions where required.

How to register as an employer

If you decide to employ staff, you'll need to register as an employer online in myIR. Go to ird.govt.nz/myIR for more information. You'll find more information on becoming an employer on our website ird.govt.nz/payroll-employers

Part 4 - Penalties and interest

Late payment

If your tax is not paid by the due date, you may have to pay late payment penalties.

Late payment penalties consist of:

- initial penalties for paying tax late, and
- monthly incremental penalties on any amounts that remain unpaid.

If you file your employment information but do not pay the amount calculated, you may also have to pay non-payment penalties.

If you have a good history with us, we may contact you before we charge a penalty.

Interest charges can also apply to unpaid tax and penalties.

Late payment penalties aren't charged on unpaid tax of \$100 or less.

Note

These penalties don't apply to student loan or child support payments.

Arrangements

If you're not able to pay your tax by the due date, enter an instalment arrangement in myIR or contact us. We'll look at your payment options which may include an instalment arrangement, depending on your circumstances. Arrangements can be agreed on before or after the due date for payment. There are greater reductions in the penalties charged if the arrangement is made before the due date.

For more information

Go to ird.govt.nz/penalties

Part 5 - Services you may need

Need to speak with us?

Have your IRD number ready and call us on one of these numbers:

General tax, tax credits and refunds	0800 775 247
Employer enquiries	0800 377 772
General business tax	0800 377 774
Overdue returns and payments	0800 377 771

Find out more at ird.govt.nz/contact-us

0800 self-service numbers

Our 0800 self-service numbers are open 7 days a week - except between 5am and 6am each day. Make sure you have your IRD number ready when you call.

For access to your account-specific information, you'll need to be enrolled with voice ID or have a PIN.

Order forms, guides and returns	0800 257 773
All other services	0800 257 777

When you call, confirm what you want from the options given. If you need to talk with us, we'll re-direct your call to someone who can help you.

Supporting businesses in our community

Our Community Compliance officers offer free tax education and advice to businesses and small organisations, as well as seminars for personal tax and entitlements.

Our Kaitakawaenga Māori offer a free advisory service to help meet the needs of Māori individuals, organisations and businesses.

Go to a seminar or workshop, or request a visit from us to find out more about:

- records you need to keep
- taxes you need to know about
- using our online services
- completing your tax returns (eg GST, employer returns)
- filing returns and making payments
- your KiwiSaver obligations.

Go to ird.govt.nz/contact-us and select the In person option to find out about requesting a visit.

Find a seminar or workshop near you at ird.govt.nz/contact-us/seminars

Privacy

Meeting your tax obligations means giving us accurate information so we can assess your tax and entitlements under the Acts we administer. We may charge penalties if you do not.

We may also exchange information about you with:

- some government agencies
- another country, if we have an information supply agreement with them, and
- Statistics New Zealand (for statistical purposes only).

You can ask for the personal information we hold about you. We'll give the information to you and correct any errors, unless we have a lawful reason not to.

Find our full privacy policy at ird.govt.nz/privacy

If you have a complaint about our service

We're committed to providing you with a quality service. If there's a problem, we'd like to know about it and have the chance to fix it.

If you disagree with how we've assessed your tax, you may need to follow a formal disputes process.

Find out more about making a complaint, and the disputes process, at ird.govt.nz/disputes

Publications

These publications contain more information and can be found on our website ird.govt.nz

Smart business guide - IR320

A guide to tax responsibilities, record keeping, income and expenses for businesses and non-profit organisations.

GST - do you need to register? - IR365

A factsheet that will help you decide if you need to be registered for GST and provide guidance on completing the registration form.

GST guide - IR375

An in-depth guide about GST for all individuals, businesses and organisations that have to charge GST.

First-time employer's guide - IR333

This explains briefly what new or prospective employers need to know to meet their tax responsibilities.

Employer's guide - IR335

Information you'll need to help you meet your responsibilities as an employer. You may receive a copy when you register. You can get a copy from our website or by calling us on 0800 257 773.

Payments and gifts in the Māori community - IR278

Information you'll need to help you meet your responsibilities as an employer.

Penalties and interest - IR240

Explains why we charge penalties and interest. It also tells you about the different penalty and interest charges and how to avoid them.

Fringe benefit tax guide - IR409

A guide to the FBT responsibilities of employers, or companies who have shareholder-employees.

New Zealand Government