Inland Revenue
Te Tari Taake

FACT SHEET | PUKA MEKA

Income Tax – Government payments to businesses (grants and subsidies)

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IS 23/06 FS

This Fact Sheet accompanies Interpretation Statement IS 23/06 *Income Tax – Government payments to businesses (grants and subsidies)* which assists businesses to understand their income tax obligations when they receive a grant or subsidy from local or central government.

All references to paragraphs and examples in this Fact Sheet are to the Interpretation Statement.

RELATED DOCUMENTS | TUHINGA WHAI PĀNGA

For more information on grants and subsidies see:

- Interpretation Statement 23/05 GST – Section 5(6D): Payments in the nature of a grant or subsidy and associated Fact Sheet 23/05
- IR249 "Grants and Subsidies"
- Tax on grants and subsidies

Introduction | Whakataki

A grant or subsidy is, very generally, a payment made gratuitously to encourage a particular outcome in the public interest. Grants can be paid by government or non-government bodies. Example | Tauira 1 shows a payment that is not from the government.

Government grants and subsidies may be provided for specific or general expenses. They may also be provided as income top-ups. Some grants may have conditions attached to them and may be repayable if they are not spent as intended. Other grants may allow surplus amounts to be spent by the business on other expenses. If your business receives a government grant or subsidy, you need to be aware of any terms or conditions relating to the payment.

Section CX 47 of the Income Tax Act 2007 makes government grants and subsidies to businesses non-taxable. Section DF 1 prevents a business claiming a deduction for an expense funded by the grant, or reduces the cost base of a depreciable asset on which the grant is spent. These sections do not apply if you are not in business or if you receive a grant but it is not for your business. See Example | Tauira 2.

In this Fact Sheet and the Interpretation Statement, we sometimes refer to government grants and subsidies together as grants or payments.

What your business needs to know about receiving a government grant or subsidy

When a payment is not taxable income

1. Government grants or subsidies received by a business are not taxable where they are for expenses that a business would usually get a deduction for. This includes an amount spent on depreciable property. See paragraphs [42] – [61].
2. The terms and conditions of a grant, or the fund from which it is paid, will generally indicate what the payment was made for. See paragraphs [70] – [71].
3. The whole payment is not included in your business tax return. It is not taxable income.

When you cannot deduct an expense in your tax return

4. If a payment is not taxable income, a deduction for expenses funded by the payment cannot be claimed in your business tax return.

5. Payments that fund depreciable property reduce the cost base of the asset by the amount of the payment. Depreciation can still be claimed on the reduced cost base. The reduction in cost will also affect other depreciation calculations that rely on the cost of an item of depreciable property. See paragraphs [2], [89] and [93], Example | Tauira 8 and Example | Tauira 9.

When a payment is taxable income

6. Payments to replace lost income, to help keep your business operating or to maintain cashflow, are income subsidies and are usually taxable. Expenses funded by income subsidies remain deductible. See paragraphs [72] – [74] and Example | Tauira 5.

If you receive a payment in one year but spend it in a different year

7. Payments are derived (or earned) when you have done everything you need to do to keep them. In some cases, payments may not be kept if you have not met the conditions attached. For example, the conditions of a grant may require you to spend the payment on a particular expense or within a particular period. See paragraphs [79] – [84] and Example | Tauira 6.
8. Payments may be received in one year but spent in a different year. Payments can also be spent over more than one year. Even if a payment is spent in a later year, the amount is not taxable if the grant provisions apply. However, it is expected that you spend the payments within a reasonable timeframe, and make sure that the relevant deductions are denied in the later years.

When the payment is more or less than what you spend

9. Where you have leftover funds from a grant payment that you do not have to repay, you will need to ensure that, when you spend those funds, you limit other deductible expenses to the full extent of the payment. See paragraphs [87] – [99], Example | Tauira 8 and Example | Tauira 9.
10. Where the payment does not cover the whole expense, deductions can still be claimed for any additional funds you spend on an expense or asset. See paragraphs [90] – [94] and Example | Tauira 7.

What records to keep for your tax return

11. Records must be kept to show that expenses equal to the amount of the payments received have not been claimed in your tax return. See paragraphs [101] – [102] and Example | Tauira 10.

12. Total expenses not claimed in your tax return(s) must equal the total amount of the payments you received or kept (if you had to repay any funds). See paragraphs [90] – [100], Example | Tauira 3 and Example | Tauira 4.

13. If a payment reimburses an expense from an earlier year, you may need to amend your earlier return to reverse out deductions claimed. See paragraph [86].

Example | Tauria

14. The above principles are explained in the following example. See IS 23/06 for further examples (as explained above).

Grant for a deductible expense

In April 2021, the Kanapu local authority introduces a fund to help retain part-time hospital staff. Initiatives that help to retain such staff are eligible for a payment.

The Kanapu Centre provides childcare for staff who work at Kanapu Hospital. The centre wishes to extend its opening hours to provide childcare to staff working until 10pm.

In July 2021, the centre applies to the local authority fund for a $50,000 grant, stating it wants the money to help employ additional childcare staff. Better childcare services would help retain hospital staff.

In August 2021, the centre receives a payment from the fund and, in September 2021, successfully employs additional childcare staff.

Because the centre intends to use the payment to employ staff and the local authority provided the grant for that purpose, the payment and the expense correspond to each other. Therefore, assuming the whole payment is spent, the $50,000 payment is not taxable and $50,000 of the costs associated with employing additional staff is not deductible. Therefore, the total amount of staff wage costs, which would ordinarily be deductible, must be reduced by $50,000.

Surplus grant funds

In mid-March 2022, the Kanapu Centre realises it has $3,000 left from the $50,000 grant payment it received from the Kanapu local authority for employing staff. The local authority does not require those funds to be repaid. As all the staff costs for the year have been met, and the centre needs to add additional play equipment to the playground, the centre uses the leftover funds on additional play equipment.

Although the local authority provided $50,000 specifically for staffing, only $47,000 was needed to meet staff costs. As the centre has used the surplus $3,000 on capital items for which a depreciation loss is deductible, the grant provisions apply to both the $47,000 of staff costs and the $3,000 capital expenditure. Therefore, the whole $50,000 is non-taxable income.

Deductible expenses equal non-taxable income amount

The Kanapu Centre should reduce its deductible wages expense for the year by $47,000.

The item(s) of play equipment that the surplus $3,000 was spent on should have their cost bases reduced by the same amount. For example:

Wooden Tower purchase price	$7,900
Minus surplus grants funds	($3,000)
Base value / cost base	$4,900

The Kanapu Centre can claim depreciation for the playground equipment using the cost base of $4,900.

About this document | Mō tēnei tuhinga

Some of the Tax Counsel Office's longer or more complex items are accompanied by a fact sheet that summarises and explains an item's main points. While it summarises the Commissioner's considered views, a fact sheet should be read alongside the full item to completely understand the guidance. Fact sheets are not binding on the Commissioner. See further Status of Commissioner's advice (*December 2012*).