

FACT SHEET | PUKA MEKA

Income tax implications of providing sponsorship

Issued | Tukuna: 20 April 2026

IS 26/10 FS 1

This fact sheet accompanies interpretation statement [IS 26/10: Income tax implications of providing sponsorship](#). It briefly explains the key points in IS 26/10 about when sponsorship that a business provides to an organisation, event, person or cause is deductible.

What this fact sheet covers

1. This fact sheet covers:
 - when sponsorship costs are deductible;
 - situations where deductions are limited or denied; and
 - timing issues where sponsorship covers more than one income year.

The sponsorship is intended to advertise or promote the business

2. To be deductible, sponsorship expenditure must have a sufficient connection to your business's income-earning process.
 3. This requirement will be met if the sponsorship is intended to advertise or promote your business. The following factors may help show this:
 - the terms of the sponsorship agreement;
-

- how the sponsorship aligns with your marketing strategy;
 - the relationship between your business and the market the sponsorship will reach; and
 - any evidence of increased sales or income.¹
4. Where there are both business and non-business reasons for the expenditure, it will generally be only partly deductible. However, if a non-business benefit (eg, a third-party benefit) is incidental to the business purpose, a full deduction is allowed.

Example | Tauria 1 – Expenditure is fully deductible: solely for business promotion

Andrew is a sole trader motor mechanic. He sponsors the local tennis club. Under the terms of the sponsorship agreement, Andrew pays \$3,000 towards the club's running costs, and the club agrees to display Andrew's business logo on its uniforms.

The expenditure is fully deductible. The requirement for the club to display Andrew's business logo on its uniforms shows that Andrew incurred the expenditure to promote his business.

Limitations to deductibility

5. If sponsorship expenditure has the required connection to your business's income-earning process, there are some circumstances where deductions may not be allowed or may be limited.

A deduction is not allowed for capital expenditure

6. Sponsorship costs that are capital in nature are not deductible.
7. If sponsorship expenditure is mainly about advertising or promoting your business, it is not likely to be capital, whether it is a one-off or recurring expense. The exception is if the expenditure results in your business having an identifiable asset or enduring advantage.

¹ It is not normally possible to identify that particular income has arisen because of particular expenditure, but if it can be shown that the expenditure gave rise to income or increased sales generally, that would be a strong factor showing the connection to the business.

Example | Tauria 2 – Expenditure is not capital: no asset or enduring advantage

Andrew from Example 1 also agrees to reimburse the tennis club for its purchase of a van, provided his business logo is prominently displayed on it.

The club owns the van, not Andrew, so Andrew is not getting any asset or enduring advantage from this expenditure. Andrew is, in effect, paying for the promotion of his business on the van.

However, if Andrew purchased the van and retained ownership of it, using it in his business and allowing the club to use it on weekends, the expenditure would be capital and not deductible. This is because the expenditure is for a capital asset that Andrew owns. Deductions for depreciation of the van would be allowed.

A deduction is not allowed for private expenditure

8. Deductions are not allowed for private expenditure.
9. If expenditure is incurred to promote your business as well as to obtain a private benefit that is more than incidental, it will be only partly deductible. You need to determine how much of the expenditure relates to each purpose and deduct only the portion that relates to the business promotion purpose.

Example | Tauria 3 – Expenditure only partly deductible: a more than incidental private benefit

Bruce is a builder, in business as a sole trader, trading as Bruce Builders. He agrees to build a new gym at his daughter's private school in return for a 50% discount on school fees for the rest of his daughter's time at the school. Under the agreement, Bruce can erect business signage on the construction site and, after construction is complete, a plaque will be put on the front of the gym stating that Bruce Builders constructed it.

There is a business promotion purpose for the expenditure Bruce incurs (on staff wages etc), as signage and a plaque are agreed as part of the arrangement.

However, another purpose Bruce had in incurring the expenditure was to get a 50% discount on his daughter's school fees. This is a private advantage that is more than incidental to the business promotion purpose. Therefore, Bruce must apportion the

expenditure between the private and business promotion purposes. The portion relating to the private benefit is not deductible.

The entertainment expenditure rules

10. If the entertainment expenditure rules apply to sponsorship expenditure, the deduction is limited to 50% of what would otherwise be allowed.
11. These rules may apply to expenditure on corporate boxes, holiday accommodation, yachts and boats, and the provision of food and drink.
12. There are some exclusions from the rules that may be relevant in the context of sponsorship. For example, if the entertainment is sponsored mainly to advertise or promote your business to the public, and the public has the same access to the entertainment as employees, business contacts or people associated with the business.

Sponsorship covering more than one income year

13. Even where sponsorship expenditure is deductible, you may not be able to deduct it all in the same income year. This depends on whether the expenditure is fully 'used up' in that year or whether it relates to more than one income year.
14. If any of the expenditure is 'unexpired' (or not 'used up') at the end of the income year, because some relates to future income years, the unexpired portion is added back in as income for the year. It is then allowed again as a deduction the following income year. You may not be required to treat the expenditure this way in certain circumstances – see [108] of IS 26/10.

Example | Tauria 4 – Adding back expenditure not 'used up' in the income year

Joey owns a restaurant. He enters into a sponsorship agreement with a local band, agreeing to pay \$9,000 upfront towards the band's running costs for the next 3 years in return for having the name of the restaurant displayed prominently on the drums for that period.

At the end of the first year of the agreement, the portion of the \$9,000 that relates to the remaining 2 years of the agreement gets included in the business's income and is then deducted in the following year.

For example, (presuming the sponsorship period aligns with tax years), the business would include the following amounts in its tax return for each of the 3 years:

Year 1	Deduct \$9,000	Add back \$6,000 as income
Year 2	Deduct \$6,000	Add back \$3,000 as income
Year 3	Deduct \$3,000	Nothing to add back as income

The net effect of this is a \$3,000 deduction each year, which effectively means the \$9,000 deduction is spread over the 3-year sponsorship term.

Sponsorship through providing goods that are trading stock

15. If a business provides sponsorship by providing goods that are trading stock, the value of the trading stock is deductible through the trading stock rules.
16. If the trading stock is provided for less than market value consideration, the business **will not** be treated as having received market value consideration if:
 - the goods are provided in the course of carrying on the business because there is a business promotional purpose (the factors at [3] may help show this);²
 - the goods are provided to a donee organisation; or
 - the goods are provided to a non-associated person for their use in a farming, agricultural, or fishing business affected by a self-assessed adverse event.³
17. General philanthropy through donating trading stock (for example, to help members of a community following an adverse event) will give rise to deemed market value income unless it falls within one of the circumstances above.

² However, if the goods are provided to an associated person there will be deemed market value income irrespective of this.

³ This requires the affected business to provide a statutory declaration containing certain information to the Commissioner. See from [140] of IS 26/10 for more information.

Example | Tauria 5 – Trading stock disposed of to a donee organisation; no deemed income

A supermarket provides a local high school parent teacher association (which is a donee organisation) with sausages, bread, onions and condiments (items that are trading stock of the supermarket) for a fundraising sausage sizzle.

The value of the trading stock will be deductible to the supermarket through the trading stock rules. The supermarket will not be treated as having derived income from disposing of the trading stock, as the parent teacher association is a donee organisation.

Sponsorship through providing services

18. If you provide sponsorship by providing services, the associated costs are deductible if you can show that the sponsorship is intended to benefit your business.

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](#) (Commissioner's statement, Inland Revenue, December 2012).