

COVID 19_ Further government response
25 March 2020

Tax Treatment of Wage Subsidies & Leave Payments

IRD has released an important message yesterday in relation to tax treatment of wage subsidies from the employer and employee's perspective.

Wage subsidies:

GST Treatment for GST registered recipient are not subject to GST. It will be treated as an exempt subsidy for the purposes of s 5(6D) of the GST Act. Order in Council to this effect has been passed yesterday through Parliament. [s 5(6E)(B)(iii)].

Income Tax Treatment- employer:

Wage Subsidy paid to the employer will not be taxable to the employer. It is an excluded income under s CX47 of the Income Tax Act 2007. It is also non-deductible to the employer when paid by the employer to the employee as part of wages.

Income Tax Treatment – employee:

Wage Subsidy paid to the employee is taxable to the employee. It is included as part of wages to the employee and is subject to PAYE, Student Loan and Kiwisaver deductions.

Leave Payment Scheme

The leave payment is not subject to GST. It is exempt for the purposes of s 5(6D) of the GST Act. Order in Council to this effect has been passed yesterday through Parliament. [s 5(6E)(B)(iii)].

The leave payment for self isolation paid to employees or self-employed persons is taxable to the employee as it is paid to replace taxable income.

Example

An Employer receives the wage subsidy of \$582 per week for an employee who receives a weekly gross remuneration of \$1,200.

The wage subsidy is not subject to GST or income tax for the employer.

The employee will receive his/ her normal gross weekly remuneration of \$ 1,200 less PAYE, Student loan, Kiwisaver, or other deductions.