



Accounting for the wage subsidy

Example scenarios for individuals



Introduction

Employers/Businesses – the Covid-19 wage subsidy (WS), including WS extension, WS resurgence and WS March 2021 payments are treated as excluded income¹ (s CX 47 of the ITA07) and the portion of wage payments to staff subsidised by the WS are not deductible (s DF 1(2) of the ITA07). The WS is taxable in the hands of the employees – employers should continue to make standard deductions such as PAYE.

Employees – where the WS is already included in their gross earnings which appear in their income profile and auto calc assessment, they do not need to file an IR3.

Self-employed/other individuals – the tax-free treatment in respect of eligible employers who receive the WS for their employees does not apply to individuals who received the WS whether as a sole trader, shareholder-employee (without tax deducted at source on earnings), partner, trustee etc. The WS received by anyone where tax was not deducted at source must be returned in their IR3/IR3NR in a new box/field "Government subsidies" in the "Further income" tab in their myIR return (Question 26² on the paper version of the IR3).

Information concerning the **spreading of income** (where the payment from MSD was received before 31 March 2020 but the WS period falls in both the 2019–20 and 2020–21 income years³; and where the payment from MSD was received before 31 March 2021 but the WS period falls in both the 2020–21 and 2021–22 income years⁴), **ACC** and **repayments** can be found on our website at ird.govt.nz/covid-19/business-and-organisations/employing-staff/financial-support/wage-subsidy-issues-for-self-employed

This document provides various examples of situations that may apply to self-employed persons and other individuals that received the WS and how their WS payments must be accounted for in their IR3/IR3NR.

Disclaimer

The example scenarios in this guide highlight the tax treatment of wage subsidy receipts, but they do not provide guidance as to whether a business or individual is entitled to the underlying wage subsidy amount – either in full or a partial amount.

There may be instances where the businesses or individuals in the scenarios are not entitled to the full wage subsidy and may be required to repay part or all of the wage subsidy received. Contact the Ministry of Social Development for further information on eligibility requirements and repayment obligations.

¹ Excluded income to the extent that the full wage subsidy amount is passed on to employees

² Question 23 on the IR3NR

³ 1 April 2019 – 31 March 2020 and 1 April 2020 – 31 March 2021

⁴ 1 April 2020 – 31 March 2021 and 1 April 2021 – 31 March 2022

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Sole trader/individual – claimed subsidy personally

The wage subsidy (WS) received by the sole trader/individual/self-employed person is taxable and must be included in their IR3 as it is a payment to replace personal loss of earnings (s CG 5B ITA07).

When calculating the business taxable income (net profit), do not include the WS receipt there. A self-employed recipient of the WS will report any usual business income (taxable income/net profit) in the "Self-employed income" box/field of the return. The portion of WS received for loss of earnings must be returned in the "**Government subsidies**" box/field.

Any WS extension, WS resurgence and WS March 2021 payments in addition to the initial WS payment are treated in the same manner as the WS payment above.

Ani, self-employed part-time dance teacher

Ani Kowhatu is a self-employed dance teacher and provides regular private lessons at her home, as well as tutoring a couple of dance students at a local high school. She does not employ any other dance instructors and is not registered for GST.

Ani applies for and receives a \$4,200 wage subsidy from MSD on 3 April 2020. Net income received from her usual business activities/self-employment for the year ended 31 March 2021 was \$24,000 (excluding the wage subsidy receipt).

Ani will include the following income in her IR3 (assuming no other income sources):

- \$24,000 in the "Self-employed income" box/field
- \$4,200 in the "Government subsidies" box/field.
- Ani's total taxable income is \$28,200

Sole trader – claim subsidy as self-employed and for employees

The receipt of the wage subsidy (WS) when used to pay employee wages is not taxable income to the business (it is excluded income) and the payment of the WS on to the employees is not deductible as an expense for salary/wages. When calculating taxable business income (net profit), the WS receipt is excluded and the salary/wage expense is reduced by the amount of the WS received.

A self-employed person will report any usual business income (taxable income/net profit) in the "Self-employed income" box/field of the return as well as their portion of WS received in the "**Government subsidies**" box/field. *Note: in the 2020 tax year WS income was required to be included as "Other income" to ensure the WS was not subject to ACC. The Government subsidies box was added for the 2021 year onwards.*

Any WS extension, WS resurgence and WS March 2021 payments in addition to the initial WS payment are treated in the same manner as the WS payment above.

Mark, self-employed plumber with employees

Mark is a self-employed plumber with a standard balance date of 31 March. He operates his plumbing business as a sole trader using his personal IRD number and not through a structure like a company or partnership. He employs Mary part-time to assist with book-keeping and other administration work that is required within the business and has a full-time apprentice Joe. Both Mary and Joe receive regular fortnightly wages.

Mark applies for and receives a wage subsidy of \$18,259.20 from MSD for himself, Joe and Mary. This was paid to him on 28 March 2020.

Mark's employees (Mary and Joe)

\$7,029.60 of the wage subsidy should be passed on to Joe and \$4,200 to Mary over the 12 weeks following the wage subsidy receipt. These amounts will be treated as ordinary PAYE earnings in the hands of Mark's employees with the relevant KiwiSaver, child support, student loan and PAYE deductions withheld. This portion of the wage subsidy which relates to Mark's employees (\$11,229.60, being \$7,029.60 + \$4,200) will be processed in the normal manner, regularly through its payroll system and the business will not take this portion of the subsidy into account when calculating its income tax liability.

Mark's first wage payment to his employees after receiving the wage subsidy fell due on 10 April and accordingly the Employment Information dated 10 April 2020 will include total wages paid (including the amount partially funded by the wage subsidy). This means that for the purposes of calculating his business income and deducting the correct amount of salary/wage expenses, Mark will need to adjust for the portion of salary and wages funded by the WS in his 2020-21 return, but not the 2019-20 return because the first payment of salary and wages partially funded by the WS occurred after 31 March 2020.

Mark

The remaining \$7,029.60 of the wage subsidy relates to Mark's own work in the business. Mark is required to account for income tax on this portion of the wage subsidy as it relates to Mark's personal lost earnings. Mark will file his IR3 showing his regular income from the business in the "Self-employed income" box and his \$7,029.60 wage subsidy in the "Government subsidies" box.

As the wage subsidy received by Mark spans across two income tax years (2019-20 and 2020-21) he is required to spread the 12-week payment across these two years. Refer next section for the calculations for each year.

Working out Mark's own portion of WS required to be included in each tax year

As the subsidy covers a 12-week period from the date it was credited to Mark's bank account on 28 March 2020, Mark must calculate what part of the \$7,029.60 subsidy applies to his own work in the business for the year ending 31 March 2020. The portion of the subsidy that relates to the 2020 tax year is calculated as follows:

- 12 weeks = 84 days.
- Only 4 days of the subsidy related to the 2020 tax year (28 – 31 March 2020).
- $4/84 \times \$7,029.60 = \334.74

The amount of the WS to be included in Mark's IR3 for the year ended 31 March 2020 is \$334.74. The balance of the WS to be included in the year 1 April 2020 to 31 March 2021 is \$6,694.86.

Mark's IR3 – 2020

Assuming the total income received by the business for the year was \$285,000 (excluding the WS receipt) and expenditure totalled \$189,000 including salary/wage payments, the net profit from usual business trading was \$96,000. Since none of the salary and wages partially funded by the WS were paid to Mary or Joe in the year ending 31 March 2020, Mark does not need to adjust his salary/wage deduction in his 2020 IR3. Mark will report the following income in his IR3 (assuming no other income):

- "Self-employed income" of \$96,000 (net profit)
- "Other income" of \$334.74 (WS portion)
- Mark's total taxable income \$96,334.74

Mark's IR3 – 2021

Assuming the total income received by the business for the year was \$171,000 (excludes the wage subsidy receipt), the total salary/wage bill for the year was \$57,200 and other expenditure totalled \$35,000, the net profit of the business would be \$78,800. However, the salary/wages funded by the WS (\$11,229.60) is non-deductible so that must be added back to the net profit to get the self-employed income amount to be returned of \$90,029.60. Mark will report the following income in his IR3 (assuming no other income):

- "Self-employed income" of \$90,029.60 (net profit)
- "Government subsidies" of \$6,694.86 (remaining WS portion)
- Mark's total taxable income \$96,724.46

Sole trader/contractor – employer claimed subsidy on their behalf

The wage subsidy (WS) received by a sole trader/self-employed person is taxable and must be included in their IR3 as it is a payment to replace personal loss of earnings. However, we are aware of some instances where the WS was not claimed by the sole trader/contractor directly – an 'employer' may have claimed it on their behalf.

The treatment of the WS by the sole trader/contractor then depends on how that employer passes that WS on to the contractor, and if they also claimed the WS personally.

The following examples address the various situations:

- Tax deducted at source
- Tax NOT deducted at source; gross earnings included in Employment Information form
- Tax NOT deducted at source; gross earnings NOT included in Employment Information form
- Tax deducted at source, received additional wage subsidy
- Tax deducted at source, received independent WS extension and WS resurgence payments
- Tax NOT deducted at source, received additional wage subsidy/independent WS extension and WS resurgence payments

Tax deducted at source

Where a person in receipt of schedular payments was included in an employer application, providing that WS was fully passed on by the employer applicant to the contractor with withholding tax deducted at source (included in the Employment Information form), the contractor is not required to declare this separately on their IR3. The income and withholding tax deductions will automatically come across to their IR3 in the schedular payments field.

Refer scenario below for Robbie.

Robbie, WT contractor (WT deducted on WS payment)

Robbie contracts to Keen Buzzers Ltd as a shearing contractor. Keen Buzzers Ltd submitted a wage subsidy application for its employees and contractors, of which Robbie was one of the parties named on the employer application.

Keen Buzzers Ltd received the wage subsidy on 2 April 2020 for all parties named on the application. The wage subsidy received on behalf of Robbie (\$7,029.60) was passed on to him over the following 12 weeks as part of his schedular income and withholding tax was deducted on the payments. When checking his income profile, Robbie can see the income received from Keen Buzzers Ltd with the tax deducted at source.

When it comes time to file his IR3 for 2021, Robbie will see the schedular income (which included the \$7,029.60 wage subsidy) reported with the withholding tax deducted. Robbie doesn't need to do anything further regarding the wage subsidy received as the income is reported in his return. Robbie will only need to declare other income received where tax was not deducted at source or shown in his income profile.

Tax NOT deducted at source; gross earnings included in Employment Information form

Where the WS was passed on by the employer to the contractor **without withholding tax deducted at source** but the gross earnings were included in the Employment Information form (therefore the income including the wage subsidy payment shows in the person's Income Profile, just without any withholding tax deducted) they will not need to declare the WS separately on their IR3. The income will automatically come across to their IR3 in the schedular payments field, but without any tax deductions showing. Tax will be payable once their IR3 has been processed.

Refer scenario below for Malcolm.

Malcolm, WT contractor (WT not deducted on WS payment, included on EI)

Malcolm contracts to Tidy Parks Ltd as a street cleaning contractor. Tidy Parks Ltd submitted a wage subsidy application for its employees and contractors, of which Malcolm was one of the parties named on the employer application.

Tidy Parks Ltd received the wage subsidy on 4 April 2020 for all parties named on the application. The wage subsidy received on behalf of Malcolm (\$7,029.60) was passed on to him as a lump-sum payment a few days later and withholding tax (WT) was not deducted on the payment. Tidy Parks didn't realise they needed to deduct WT on the WS payment passed on. Despite not deducting WT, the gross payment was reported on Tidy Park's Employment Information. Malcolm's contract was then terminated. When checking his income profile, Malcolm can see the income received from Tidy Parks Ltd but without tax deducted on the payment.

When it comes time to file his IR3 for 2021, Malcolm will see the schedular income reported, but without tax deducted. This includes the \$7,029.60 initial wage subsidy payment passed on to him as a lump sum. Malcolm doesn't need to do anything further regarding the wage subsidy received as the income is reported in his return. Malcolm will only need to declare other income received where tax was not deducted at source or included in his income profile.

Tax NOT deducted at source; gross earnings NOT included in Employment Information form

Where the WS was passed on by the employer to the contractor **without withholding tax deducted at source** and also **not included** in the Employment Information form (therefore is not showing in the person's Income Profile), they will need to declare this on their IR3 in the "**Government subsidies**" box.

Refer scenario below for Sylvia.

Sylvia, WT contractor (WT not deducted on WS payment, not on EI)

Sylvia contracts to Quick Clean Ltd as a commercial premises cleaning contractor. Quick Clean Ltd submitted a wage subsidy application for its employees and contractors, of which Sylvia was one of the parties named on the employer application.

Quick Clean Ltd received the wage subsidy on 6 April 2020 for all parties named on the application. The wage subsidy received on behalf of Sylvia (\$7,029.60) was passed on to her as a lump-sum payment a few days later without any withholding tax deducted on the payment as required. Quick Clean Ltd then terminated her contract. When checking her income profile, Sylvia cannot see the wage subsidy income received from Quick Clean Ltd. This is because Quick Clean Ltd has not included the lump-sum payment on their Employment Information form, thinking that they didn't need to.

Sylvia starts cleaning residential premises (where withholding tax is not required to be deducted on payments) and derives net income of \$8,020.

When it comes time to file her IR3 for 2021, as Inland Revenue has not been notified of the gross earnings, Sylvia will need to report the wage subsidy on her return in the "Government subsidies" box and her other income earned without tax deducted at source as normal.

Sylvia will include the following income in her IR3 (assuming no other income sources):

- \$7,029.60 in the "Government subsidies" box/field.
- \$8,020 in the "Self-employed income" box/field
- Sylvia's total taxable income is \$15,049.60

Tax deducted at source, received additional wage subsidy

If a person in receipt of schedular payments was included in an employer application for any wage subsidy payments (including WS extension and WS resurgence) **AND** also applied for and received the wage subsidy as a sole trader, the wage subsidy amount paid directly to them **without tax deducted at source** will be required to be returned in their IR3 in the "**Government subsidies**" box⁵. The amount passed on to them as a schedular payment with Withholding Tax already deducted at source will already pre-populate into the IR3.

Refer scenario below for Dalip.

⁵ Assuming the additional wage subsidy is not repaid to MSD as is expected in this scenario

Dalip, WT contractor (WT deducted on WS payment, additional WS payment received)

Dalip is an employee of ABC Builders Ltd. ABC Builders Ltd submitted a wage subsidy application for its employees and contractors, of which Dalip was one of the parties named on their employer application.

Outside of his job at ABC Builders Ltd, Dalip contracts to XYZ Land Ltd for 15 hours a week. XYZ Land Limited has informed all of its contractors to apply for the wage subsidy as sole traders. Dalip applied independently on a sole trader application on 2 April 2020 for his contracting work for XYZ Land Ltd. He received \$4,200 directly from MSD.

ABC Builders Ltd received the wage subsidy on 8 April 2020 for all parties named on the application. The wage subsidy received on behalf of Dalip (\$7,029.60) was passed on to him as part of his fortnightly pay and was included on ABC Builders Ltd's Employment Information forms (with tax deducted on the payment as required).

When checking his income profile, Dalip can see income received from ABC Builders Ltd for the year of \$54,000 with tax deducted.

When it comes time to file his IR3 for 2021, Dalip will see his employment income received via ABC Builders Ltd pre-populate into the "Gross salary/wages" field which includes the wage subsidy of \$7,029.60 passed on with the tax deducted at source. The wage subsidy payment he received directly for his contracting work for XYZ Land Ltd is required to be declared separately in the "**Government Subsidies**" box as this did not have tax deducted at source.

Dalip will include the following income in his IR3 (assuming no other income sources):

- \$54,000 "Gross salary/wages" (pre-populated which includes the \$7,029.60 employee wage subsidy applied for by ABC Builders Ltd).
- \$4,200 in the "Government subsidies" box/field (sole trader wage subsidy pertaining to contract work for XYZ Land Ltd).
- Dalip's total taxable income is \$58,200.

Tax deducted at source, received independent WS extension and WS resurgence payments

This scenario covers a person in receipt of schedular payments who was included in an employer application for the initial wage subsidy, but by the time the WS extension and WS resurgence subsidies were announced the person was no longer contracted or the contracting business did not apply on their behalf. They applied for and received the WS extension and/or WS resurgence as a sole trader. The wage subsidy amounts paid directly to them **without tax deducted at source** will be required to be returned in their IR3 in the "**Government subsidies**" box. The amount passed on to them as a schedular payment and included in the Employment Information form with withholding tax already deducted at source will pre-populate on the IR3.

Refer scenario below for George.

George, WT contractor (WT deducted on WS payment, extension payments received)

George contracts to Affordable Houses Ltd as a labour-only contractor. Affordable Houses Ltd submitted a wage subsidy application for its employees and contractors, of which George was one of the parties named on the employer application.

Affordable Houses Ltd received the wage subsidy on 10 April 2020 for all parties named on the application. The wage subsidy received on behalf of George (\$7,029.60) was passed on to him as a lump-sum payment a few days later and included on the Employment Information form with withholding tax deducted on the payment as required. George's contract was then terminated. When checking his income profile, George can see the income received from Affordable Houses Ltd with tax deducted.

With only adhoc building work since April totalling net \$5,000, in July George personally applied for and received the wage subsidy extension on the sole trader application. George received this payment of \$4,686.40 on 9 July 2020.

When it comes time to file his IR3 for 2021, George will see the schedular income of \$7,029.60 reported with the tax deducted. This is the initial wage subsidy payment passed on to him as a lump sum. The wage subsidy extension payment of \$4,686.40 paid directly to him is not populated in his return and he is required to declare this separately in the "Government subsidies" box.

George will include the following income in his IR3:

- \$7,029.60 in the "Schedular income" box/field (pre-populated).
- \$5,000 in the "Self-employed income" box/field
- \$4,686.40 in the "Government subsidies" box/field.
- George's total taxable income is \$16,716.00.

Tax NOT deducted at source, received additional wage subsidy/independent WS extension and WS resurgence payments

If a person in receipt of schedular payments was included in an employer application for the initial wage subsidy and **not included** in the Employment Information form (therefore is not showing in the person's income profile), they will need to declare this on their IR3 in the "**Government subsidies**" box along with any other wage subsidy amounts paid directly to them (without tax deducted at source).

Refer scenario below for Isaac.

Isaac, WT contractor (WT not deducted on WS payment, extension payments received)

Isaac contracts to EZ Clean Ltd as a commercial premises cleaning contractor. EZ Clean Ltd submitted a wage subsidy application for its employees and contractors, of which Isaac was one of the parties named on the employer application.

EZ Clean Ltd received the wage subsidy on 12 April 2020 for all parties named on the application. The wage subsidy received on behalf of Isaac (\$7,029.60) was passed on to him as a lump-sum payment a few days later. Withholding tax (WT) was not deducted on the payment as required. Isaac's contract was then terminated. When checking his income profile, Isaac cannot see the income received from EZ Clean Ltd. This is because EZ Ltd has not included the lump-sum payment on their Employment Information form, thinking that they didn't need to.

Still without work, in July Isaac personally applied for and received the wage subsidy extension on the sole trader application. Isaac received this payment on 14 July 2020.

When it comes time to file his IR3 for 2021, Isaac will need to report the wage subsidy received of \$7,029.60 that wasn't reported by EZ Clean Ltd on their EI (and therefore did not have WT deducted) and the wage subsidy extension payment of \$4,686.40 paid directly to him in the "Government subsidies" box.

Isaac will include the following income in his IR3 (assuming no other income sources):

- \$11,716 in the "Government subsidies" box/field.
- Isaac's total taxable income is \$11,716.00.

Children/students receiving the wage subsidy

Children and school students who earn income from self-employment, other than as a beneficiary of a trust, are not required to file a tax return when they earn less than \$2,340 in an income year, as this is treated as exempt income (s CW 55BB of the ITA07). Examples include income from paper and pamphlet delivery.

Where a child or school student earns \$2,340 or more, the income exemption does not apply, and they may have to file a tax return⁶ and pay tax on all of the income they received (not just the amount that exceeds \$2,340).

Where a child or school student applied for and received the wage subsidy (WS), the income they received would result in them exceeding the \$2,340 threshold and the WS income did not have tax deducted at source. Therefore, they will now be required to file an IR3 tax return and declare both the income from self-employment and the wage subsidy. The wage subsidy must be declared in the "Government Subsidies" box/field on the return.

Any WS extension, WS resurgence and WS March 2021 payments in addition to the initial WS payment are treated in the same manner as the WS payment above.

Refer scenario below for Josie.

Josie, school student delivering pamphlets

Josie is a school student who delivers pamphlets twice a week. Josie does this work as an independent contractor. On average she receives \$40 per week for all of her deliveries. This equates to \$2,080 therefore her income is usually exempt from tax and she does not need to file a tax return.

Josie's paper run was reduced by roughly 50% in March and April. Josie applies for and receives a \$4,200 wage subsidy from MSD on 14 April 2020. Her income received from self-employment (pamphlet delivery) for the year ending 31 March 2021 is \$1,900, rather than her usual \$2,080. Her total income including the wage subsidy is \$6,100.

The income Josie received from the pamphlet delivery is no longer exempt income because her total income exceeds the \$2,340 threshold and she is required to file a tax return and include all income from her pamphlet delivery for the year and the wage subsidy received. The wage subsidy amount received must be included in the "Government subsidies" box/field on the return.

Josie will include the following income in her IR3 (assuming no other income sources):

- \$4,200 in the "Government subsidies" box/field.
- \$1,900 in the "Self-employed income" box/field
- Josie's total taxable income is \$6,100

⁶ If all income had tax deducted at source they may receive an auto-calc

Home based childcare provider – using standard costs

An individual who provides childcare in their own home has the option of calculating their taxable income using either the Standard Cost method provided in DET 09/02 or using actual costs.

Wage subsidy income must be included when calculating an individual's taxable income using either the Standard Cost method or actual costs.

The following example addresses individuals who choose to use the **Standard Cost method**. For individuals who choose to use actual costs, refer to the "Sole Trader – claimed subsidy personally" example above.

The wage subsidy (WS), including WS extension and WS resurgence, and WS March 21 payments, must be included in the "Gross income received for childcare" calculation (Part A on the IR413).

For the period where no children were cared for, the "hours" in Part B (IR413) of the standard cost calculation will be NIL.

Note: As the wage subsidy payment has been treated as a compensation payment for the purposes of s CG 5B of the ITA 2007, the payment can be returned in the income year which the income being replaced would have been derived. Therefore, where the payment was received prior to 31 March 2020, the payment can be spread over the 12 weeks following receipt and attributed to both the 2020 and 2021 tax returns. This also applies to the March 2021 wage subsidy, where the two-week wage subsidy period may cover both the 2020–21 and 2021–22 income years depending on when it was received.

After completing the Standard Cost calculation:

- If the amount is a loss (negative), enter nil in the "Self-employed income" field on the return.
- If the amount is a profit (positive) and:
 - less than the amount of the wage subsidy received, then enter the profit amount in the "**Government subsidies**" box/field on the IR3
 - equal to the amount of the wage subsidy received, then enter that amount in the "**Government subsidies**" box/field on the IR3
 - greater than the amount of the wage subsidy received,
 - enter the wage subsidy amount in the "Government subsidies" box/field on the IR3
 - enter the balance of the profit (profit minus wage subsidy amount) into the "Self-employed income" box/field on the IR3

Note: The "**Government subsidies**" box was not available for the 2020 tax return and for this year customers were recommended to enter the amount in the "Other income" box/field to prevent ACC levies from being charged.

Refer example below for Cynthia.

Cynthia - home based childcare provider

Cynthia is a home-based childcare provider. As a result of the lockdown, she was unable to provide childcare for the period 25 March to 13 May. She applied for the wage subsidy and received the payment of \$7,029.60 on 25 March 2020.

In previous years she has chosen to use the Standard Cost method for calculating her income and she chooses to do so again in the 2020 and 2021 tax years. She spreads the payment over the 12 weeks so effectively is required to account for 1 week in the 2020 year (\$585.80) and the remainder in the 2021 year (\$6,443.80).

Using the Standard Cost method she calculates her 2020 net income to be \$5,200. One week of the wage subsidy was included in her gross income before her deduction for standard costs. As her net income (\$5,200) exceeds the wage subsidy amount (\$585.80), she accounts for her net income in her 2020 IR3 as follows:

- \$585.80 in the "Other income" representing one week of wage subsidy income
- \$4,614.20 in the "Self-employed income" representing the balance of her income (being \$5,200 minus \$585.80).
- Cynthia's total taxable net income is \$5,200

Using the Standard Cost method she calculates her 2021 net income to be \$3,300. 11 weeks of the wage subsidy (\$6,443.80) was included in her gross income before her deduction for standard costs. As Cynthia's net income is less than the amount of the wage subsidy received for 2021, Cynthia accounts for her net income in her 2021 IR3 as follows:

- \$3,300 in the "Government Subsidies" box/field
- Cynthia's total taxable net income is \$3,300

Although the remaining 11 weeks of wage subsidy income is \$6,443.80, this is greater than the net income calculated using the Standard Cost method, so Cynthia only has to include the amount of net income calculated using this method in the "Government subsidies" box/field – \$3,300.

Cynthia's colleague, Scott, is in a similar situation and needs to account for 11 weeks of the wage subsidy in his 2021 IR3. However, using the Standard Cost method, Scott's net income (including the wage subsidy amount) is \$8,800 for 2021.

As Scott's net income exceeds the wage subsidy amount for 2021, he accounts for the \$8,800 in his IR3 as follows:

- \$6,443.80 in the "Government subsidies" box/field
- \$2,356.20 in the "Self-employed income" representing the balance of his income (being \$8,800 minus \$6,443.80)
- Scott's total taxable income is \$8,800

Partner in partnership/look-through company owner

Wage subsidy (WS) receipts by a partnership and look-through company (LTC) must consider whether there are working partners (s DC 4 of the ITA07) or LTC owners (s DC 3B of the ITA07) when allocating such receipts.

Where there is a working partner or owner, the WS received by the partnership or LTC must first be applied to the working partner or owner's regular salary/wages and the necessary PAYE and other required deductions made.

Subsequent allocations of the WS receipt must be dealt with in accordance with the partnership agreement or Partnership Law Act 2019 for partnerships, and the LTC owners' interests in accordance with their shareholding.

Ultimately, all WS payments allocated to partners or LTC owners, either via a salary/wage or via their allocation of their share of income is taxable income to them and is required to be returned in their IR3/IR3NR. The WS portion of the income received by partners and LTC owners is not subject to the ACC levy as it was not derived from personal exertion. Therefore, when the partner/LTC owner files their IR3/IR3NR, their respective income assigned will need to be split between active partnership/LTC income and the WS portion of the income which must be included in the "Government subsidies" box/field.

In terms of the partnership/LTC accounting for the receipt of the WS, the receipt will either be:

- Excluded income (s CX47) to the extent it is used to pay wages (in which case those wages are then not deductible (s DF 1(2)).
See working partner/LTC owner example below.
- Taxable income in all other instances.

Working partner/LTC owner

Where a working partner/LTC owner receives a regular salary/wage in accordance with ss DC 4 or DC 3B, the WS must be used to fund those regular wages and will be addressed via the PAYE system. Their regular salary/wage income including the WS will appear in their income profile and their IR3 (gross earnings/tax deductions fields).

If the full amount has not been passed on via the regular wages, the balance will form part of the net income allocation from the partnership or LTC, and the amount of WS left which is allocated to them as part of that (without tax deducted at source) will need to be included in the "Government subsidies" box/field of their IR3 in addition to the salary/wage income.

Refer example below for the BV Partnership.

The BV Partnership submitted a wage subsidy application on 3 April 2020 listing Bruce and Vaughan as partners. A total of \$14,059.20 WS was paid to the partnership.

Bruce is a working partner (s DC 4) paid \$700 per week. The WS must be used to pay Bruce's regular salary and wages. Where there is excess WS that is not allocated to someone's wages during the wage subsidy period, it should be used to top up the wages of other staff. This means that part of Vaughan's wage subsidy amount will be used to offset the remainder of Bruce's wages.

BV Partnership IR7

In the financials for BV Partnership, the WS receipt will be recognised as follows:

- Salary/wage expense \$36,400 ($\700×52, being Bruce's total annual salary and wages)
- Non-deductible salary/wage expense \$8,400 (equal to excluded income amount below, being Bruce's salary and wages during the wage subsidy period funded by BV Partnership's WS receipt)
- Excluded income of \$8,400 ($\700×12) (being the part of BV Partnership's wage subsidy receipt used to pay for salary and wages during the wage subsidy period, equal to non-deductible salary/wage expense above)
- Taxable income of \$5,659.20 ($\$14,059.20 - \$8,400$, being the remainder of BV Partnership's wage subsidy amount not used to fund salary and wages during the wage subsidy period)

The balance of the WS not paid as wages during the 12-week wage subsidy period which must be treated as taxable income (\$5,659.20) is available for distribution to the partners in accordance with their partnership agreement/Partnership Act.

The BV Partnership made net income of \$46,000 from trading (of which \$5,659.20 is from the WS). The partnership will report net taxable income of \$46,000 in the IR7. Bruce and Vaughan are equal partners and therefore the IR7P will show an allocation of partnership income of \$23,000 each. Of this \$23,000, only \$20,170.40 is active partnership income and \$2,829.60 is attributed to the WS so must be included in the "Government subsidies" box/field.

Bruce's IR3

The following is what Bruce will show in his IR3 (assuming no other income sources)

- \$36,400 will automatically populate in the "Gross earnings" box/field in myIR
- \$20,170.40 in the "Active partnership income" box/field
- \$2,829.60 in the "Government subsidies" box/field
- Bruce's total taxable income is \$59,400

Vaughan's IR3

The following is what Vaughan will show in his IR3 (assuming no other income sources)

- \$20,170.40 in the "Active partnership income" box/field
- \$2,829.60 in the "Government subsidies" box/field
- Vaughan's total taxable income is \$23,000

Non-working partners/LTC owners

The WS received will be taxable income to the partnership and available for allocation in accordance with normal tax rules for partnerships/LTCs.

The partnership/LTC will determine the net income to be allocated to each partner/LTC owner and this will be represented in the IR7 and IR7P/IR7L.

Once the allocation is determined, this will then need to be split further to determine the 'active partnership income' and the portion funded by the WS that is to be included in the respective partner/LTC owners IR3 to ensure WS amounts received are included in the "Government subsidies" box/field and ACC is not charged on the WS amount.

Refer example below for the A&B Partnership.

A&B Partnership submitted a wage subsidy application for Abbey and Brett as partners. A total of \$14,059.20 WS was paid to the partnership. Neither Abbey nor Brett are working partners so do not receive a salary or wage during the year.

The WS received by the A&B Partnership is taxable income to the partnership and will be available for allocation via net profits. The net profit (income) of the partnership was \$34,000 from trading. This figure includes the \$14,059.20 wage subsidy receipt that was not paid out as salary and wages. The partnership will report net taxable income of \$34,000 in the IR7. Abbey and Brett are equal partners and therefore the IR7P will show an allocation of partnership income of \$17,000 each (of which \$7,029.60 represents the WS being passed on).

Abbey and Brett will each declare the following in their respective IR3s (assuming no other income sources):

- \$9,970.40 in the "Active partnership income" box/field (this will be the amount subject to ACC levies)
- \$7,029.60 in the "Government subsidies" box/field
- Total taxable income - \$17,000 each

Shareholder-employee of company – treated WS as 100% salary/wages

Where a company applied for the wage subsidy (WS) which included shareholder-employees in the application, and that wage subsidy was treated as paid to the shareholder-employee as a regular salary/wage from the business, the treatment in the hands of the shareholder-employee will be dependent on whether it was included on the Employment Information form and had tax deducted at source or not.

Any WS extension, WS resurgence or WS March 2021 payments in addition to the initial WS payment are treated in the same manner as the WS payment above.

The following examples address the various situations:

- Tax deducted at source
- Tax NOT deducted at source; gross earnings included in Employment Information form
- Tax NOT deducted at source; gross earnings NOT included in Employment Information form

Tax deducted at source

Where the WS was passed on to a shareholder-employee as part of their regular salary/wage and it was included on the Employment Information form with tax deducted at source, all of this information will appear in the shareholder's income profile in myIR and will pre-populate into the gross earnings and tax deductions boxes in their IR3. The WS amount does not need to be included in the "Government subsidies" box/field in their IR3.

Refer scenario below for Kiri.

Kiri, shareholder-employee, wages with tax deducted at source

Kiri is a shareholder in a mechanic business, Well Oiled Motors Ltd, in which she regularly is paid a wage of \$650 per week.

Well Oiled Motors Ltd applies for the wage subsidy and receives the \$7,029.60 wage subsidy payment from MSD. It must pass this on to Kiri. As Kiri is paid regular wage payments from her company, the wage subsidy is used to fund her wages over the 12-week period the subsidy applies to (\$585.80 partially funded by the wage subsidy, \$64.20 topped up by the company).

Well Oiled Motors Ltd does not have any GST obligations for the wage subsidy. For income tax, the receipt is excluded income and salary/wages funded by the wage subsidy are not deductible.

Well Oiled Motors Ltd files its Employment Information forms declaring the wages paid to Kiri in the normal manner through its payroll system. PAYE and Kiwisaver deductions were made on the full wage payment (\$650).

In the 2021 financials for Well Oiled Motors Ltd they will report the following:

- Excluded income of \$7,029.60 which is the full amount of the WS received.
- Non-deductible salary/wage expense of \$7,029.60

When it comes time for Kiri to file her IR3 return, Kiri can see her income, partially funded by the wage subsidy in her income profile. She does not need to report the wage subsidy separately in the "Government Subsidies" box/field.

Tax NOT deducted at source; gross earnings included in Employment Information form

Where a shareholder-employees takes a regular salary/wage from the company, the company should make the necessary PAYE and other tax deductions from this payment and submit Employment Information forms (s RD3B of the ITA07 does not apply). Where tax was not deducted at source but the gross earnings were included on the Employment Information form, the gross will still appear in the shareholder(s) income profile in myIR and will pre-populate into the gross earnings box in their IR3 and the amount of income tax payable will be calculated when the IR3 is filed. The WS amount does not need to be included in the "Government subsidies" box/field in their IR3. Tax will be payable once their IR3 has been processed.

Tax NOT deducted at source; gross earnings NOT included in Employment Information form

Where a shareholder-employee takes a regular salary/wage from the company, the company should make the necessary PAYE and other tax deductions from the payment and submit Employment Information forms (s RD 3B of the ITA07 does not apply). Where tax was not deducted at source when required and the relevant income details were not included on an Employment Information form, the shareholder will be required to report this income in the "Government Subsidies" box/field in their IR3 (as is required by a shareholder-employee taking an annual salary).

Refer scenario below for Benji.

Benji, shareholder employee, regular salary without tax deducted at source

Benji is a shareholder in an IT company, IT Help Ltd, from which he regularly takes \$1,500 per week from the company (\$78,000 for the year).

IT Help Ltd applies for the wage subsidy listing Benji as an employee and receives the \$7,029.60 wage subsidy payment from MSD. It must pass this on to Benji. IT Help Ltd is not registered as an employer and has not used the PAYE system to pay Benji.

IT Help Ltd does not have any GST obligations for the wage subsidy. For income tax, the receipt is excluded income (to the extent paid out as shareholder salary) and the portion of the shareholder salary funded by the wage subsidy is not deductible.

Since it was not processed through the PAYE system, the income will not appear in Benji's income profile in myIR and his IR3. He will be required to include the wage subsidy amount of \$7,029.60 in the "**Government subsidies**" box/field on his IR3 and the balance of the income taken from the business in the "Shareholder salary" box/field.

In the 2021 financials for IT Help Ltd they will report the following:

- Excluded income of \$7,029.60 which is the full amount of the WS received.
- Shareholder salary \$78,000 ($\$1,500 \times 52$ weeks)
- Non-deductible salary/wage expense of \$7,029.60

The IR4S will show the following:

- Shareholder salary \$78,000 (the split will occur in the IR3 only)

Benji will report the following in his 2021 IR3:

- \$7,029.60 in the "Government subsidies" box/field
- \$70,970.40 in the "Shareholder salary" box/field
- Benji's total taxable income is \$78,000

Shareholder-employee of company – treated WS as 100% shareholder salary

Where a company applied for wage subsidy (WS) which included shareholder-employees in the application, the treatment of the WS for shareholder-employees depends on whether they take a regular salary/wage from the business. Regardless of how a shareholder-employee derives income from the business, the business is required to pass the WS to the employees listed in its WS application.

If the shareholder-employee takes a regular salary or wage from the business, the business is required to use the WS to pay that regular salary/wage, deduct tax at source and include the relevant information on the Employment Information forms (refer discussion in the previous section).

Where the shareholder-employee does not take a regular salary or wage, it must be paid to them as a shareholder salary at year end. This is required even if the company is in a loss position or if the shareholder salary allocation would put the company into a loss position.

The amount of the shareholder salary funded by the wage subsidy must be returned in the "Government Subsidies" box/field on the shareholder-employee's IR3 return. The balance of the shareholder salary will be reported in the "Shareholder Salary" box/field on the return.

Any WS extension, WS resurgence or WS March 2021 payments in addition to the initial WS payment are treated in the same manner as the WS payment above.

Refer scenario below for XYZ Limited.

XYZ Limited submitted a wage subsidy application for five full-time staff. Two of those listed in the application are shareholder-employees, Tama and Wiremu who do not draw a regular salary/wage, only an annual shareholder salary.

The total wage subsidy paid to XYZ Limited on 4 April 2020 was \$35,148. The total wage subsidy passed on to the three employees via their salary/wages (which accordingly had PAYE and other deductions made) was \$21,088.80.

The total salary and wage bill for XYZ Limited for the three employees for the 2021 year was \$109,200.

A shareholder salary is required to be declared for each of the shareholder-employees, Tama and Wiremu, which at a minimum must be an amount equal to the wage subsidy received for each of them. The company was able to pay a shareholder salary of \$40,000 each to Tama and Wiremu.

In the 2021 financials for XYZ Limited they will report the following:

- Excluded income of \$35,148 which is the full amount of the WS received.
- Shareholder salary of \$80,000 ($\$40,000 \times 2$)
- Salary/wage expense of \$109,200 (other employees)
- Non-deductible salary/wage expense of \$35,148 (passed on to both employees and shareholders)

The IR4S will show the following:

- Shareholder salary of \$40,000 for each shareholder (the split will occur in the IR3 only)

Tama and Wiremu will be required to report their shareholder salary (part funded by the wage subsidy), in their respective IR3s as follows:

- \$7,029.60 in the "Government subsidies" box/field being the WS received.
- \$32,970.40 in the "Shareholder salary" box/field, being the shareholder salary amount not funded by the WS ($\$40,000 - \$7,029.60$).
- \$40,000 total taxable income each (with no tax deducted at source) assuming no other income sources.

Shareholder-employee of company – part salary/wages and part shareholder salary

Where a company applied for a wage subsidy (WS) which included a shareholder-employee(s) in the application, the company should continue to pay the shareholder-employee(s) their regular salary/wages (as was done prior to COVID-19) and make the necessary PAYE and other tax deductions.

Where the shareholder-employee's regular salary/wage is less than the weekly WS amount that was received (e.g. their standard wage is \$400 per week but the WS applied for on their behalf was \$585.80 per week), part of the WS will be applied to the regular salary/wage and the balance applied as an annual shareholder salary (applying the treatment in s RD 3C of the ITA07).

The portion that does not have tax deducted at source (e.g. \$185.80, using the example below) will be required to be returned in the "Government subsidies" box/field in their IR3, with the balance that was paid out as salary and wages will show as Gross earnings or Shareholder salary.

Any WS extension, WS resurgence or WS March 2021 payments in addition to the initial WS payment are treated in the same manner as the WS payment above.

Refer scenario below for Mr Bert and Mr Ernie.

Mr Bert and Mr Ernie, mix of shareholder-employee income

N2020 Ltd submitted a wage subsidy application for 8 full-time staff. Two of those listed in the application are shareholder-employees, Mr Bert and Mr Ernie who draw a regular salary/wage of \$400 per week each.

The total WS paid to the company on 6 April 2020 was \$56,236.80. The total passed on to the six employees via their salary/wages which accordingly had PAYE and other tax deductions was \$42,177.60. In addition, the total WS passed on to Mr Bert and Mr Ernie via their salary/wages, which accordingly had PAYE and other tax deductions at source, was \$9,600 (\$4,800 each – being their standard \$400 weekly salary/wage during the wage subsidy period). The total salary/wage bill for the company for the 2021 year was \$249,600.

A shareholder salary is required to be declared for each of the shareholder-employees, Mr Bert and Mr Ernie which at a minimum must be the residual wage subsidy amount that was not paid out to them as salary and wages during the wage subsidy period (i.e. the wage subsidy received for each of them minus the amount already passed on and included in the Employment Information ("EI") schedules). Of the WS received of \$7,029.60 each for Mr Bert and Mr Ernie, \$4,800 has already been accounted for via the EI schedules with tax deducted at source. The balance of the WS amount (\$2,229.60 each) must be returned as a shareholder salary.

The company was able to pay an end of year shareholder salary of \$50,000 each to Mr Bert and Mr Ernie. Of this, \$2,229.60 for each is funded by the wage subsidy.

Company financials/tax return

In the 2021 financials for N2020 Ltd they will report the following:

- Excluded income of \$56,236.80 which is the full amount of the wage subsidy received.
- Shareholder salary of \$100,000 (\$50,000 × 2)
- Salary/wage expense of \$249,600
- Non-deductible salary/wage expense of \$56,236.80

The IR4S will show the following:

- Shareholder salary of \$50,000 for each shareholder (the split will occur in the IR3 only)

Shareholder-employees tax returns

The salary/wages received by Mr Bert and Mr Ernie through the Employment Information schedules with tax deducted at source will already pre-populate into their IR3 return. Mr Bert and Mr Ernie will be required to report their shareholder salary (partly funded by the wage subsidy) in addition to this.

Amounts showing in their respective IR3s are as follows (assuming no other income):

- \$20,800 will pre-populate as "Gross earnings" (\$400 × 52, salary/wages partially funded by wage subsidy; tax deducted at source)
- \$2,229.60 will need to be included in the "Government subsidies" box/field, being the balance of the wage subsidy received from MSD in their name (without tax deducted at source).
- \$47,770.40 will need to be included in the "Shareholder salary" box/field, being the shareholder salary amount not funded by the excess wage subsidy (\$50,000 – \$2,229.60)
- \$70,800 total taxable income each.

Directors/chairpersons/executive office holders

Where a director, chairperson, or executive office holder received a wage subsidy, either directly or indirectly via an entity with which they are involved, the wage subsidy (**WS**) received is taxable. Typically, such amounts are schedular payments and will have withholding tax deducted and returned via the PAYE system.

If the director, chairperson, or executive office holder received the subsidy without tax deducted at source (e.g. not passed on via the PAYE system), it must be included in their IR3 in the "**Government subsidies**" box/field.

Any WS extension, WS resurgence or WS March 2021 payments in addition to the initial WS payment are treated in the same manner as the WS payment above.

Geoff, tax deducted at source

Geoff is a director at Wise Owl Ltd and typically receives a \$3,000 director's fee every month. A wage subsidy application was submitted by Wise Owl which included Geoff in the application. Wise Owl continued to pay Geoff his director fee of \$3,000 per month in April through to June 2020 and correctly deducted withholding tax on the payments.

Geoff can see these schedular payments (which fully utilised the wage subsidy attributed to him) along with the withholding tax deducted in his income profile in myIR.

Geoff doesn't need to do anything further regarding the wage subsidy received as the income will already appear in his auto calc or IR3.

Theresa, tax NOT deducted at source

Theresa is a director at Daisy Boo Ltd. Theresa does not receive regular director's fees from Daisy Boo Ltd. Daisy Boo Ltd applied for and received a part-time wage subsidy for Theresa. Daisy Boo Ltd passed the full \$4,200 onto Theresa as a lump sum without tax deducted. As a result, this does not appear in her income profile in myIR.

Theresa will need to include the \$4,200 wage subsidy in the "**Government Subsidies**" box/field of her IR3.

Trustees/beneficiaries of trusts

Where a trustee or beneficiary of a trust received a wage subsidy, either directly or indirectly via the trust, the wage subsidy (WS) received is taxable.

Where the trustee or beneficiary is an employee of the trust and is paid a salary/wage, the wage subsidy applied for on their behalf is required to be passed on as part of their salary/wages with PAYE and other deductions made. Where the full wage subsidy applied for on their behalf has been passed on and tax deductions at source made, the trustee/beneficiary is not required to do anything further. This income will appear in their income profile and either their auto calc or IR3.

If the trustee/beneficiary of the trust received the subsidy without tax deducted at source (e.g. not passed on via the PAYE system), it must be included in their IR3 in the "**Government subsidies**" box/field.

Any WS extension, WS resurgence or WS March 2021 payments in addition to the initial WS payment are treated in the same manner as the WS payment above.

Lacey, tax deducted at source

Lacey is a beneficiary of the Macey Investment Trust. She is also an employee and paid a regular wage of \$700 per week. The \$585.80 per week wage subsidy received by the Trust is used to fund her regular wage payments. Lacey did not receive any other wage subsidy payments from the Trust.

Lacey can see her gross earnings in her income profile in myIR (which fully utilised the wage subsidy attributed to her).

Lacey doesn't need to do anything further regarding the wage subsidy received as the income will already appear in her auto calc or IR3.

Malu, tax NOT deducted at source

Malu is a trustee of the Macey Investment Trust. The Trust applied for and received a part-time subsidy for Malu. The \$4,200 received by the Trust was passed on to Malu as a lump sum without tax deducted at source.

Malu cannot see any payments from the Trust in the gross earnings in his income profile in myIR.

Malu is required to file an IR3 and declare the \$4,200 wage subsidy received in the "**Government Subsidies**" box on his return together with any other income received.