



SECTION 4 TAXATION LIABILITY OF SPORTING ADJUNCTS

4 TAXATION LIABILITY

- 4.1 Each club is an incorporated society, or in some cases, a friendly society. As such the club is a 'body corporate' and is issued with an IRD and a GST number.

THE CLUB IS RESPONSIBLE AND LIABLE FOR ALL TRANSACTIONS THAT TAKE PLACE INVOLVING IT.

- 4.2 Many clubs form separate sporting adjuncts, sections to cater for particular interest or establish funds for a particular event. In many cases, these groups may have individual bank accounts, either separate or another accounts within the club's main account.
- 4.3 Transactions involving these groups are conducted separately from the club's main activities and in many cases GST is not considered or declared. In other circumstances such as raffles, GST is claimed on the prizes but is not paid on the income from the tickets.
- 4.4 There are only two options for a club in this area:
- (a) If the sporting adjunct or section is a separately incorporated society or a division completely controlled by its own constitution, then that organisation may have its own separate IRD and GST number.
 - i. This division or section would be completely responsible for its own finances and liabilities. It may elect not to register for GST if the total transactions are less than \$60,000 per annum
 - (b) If the adjunct or section is not separately incorporated or in complete control of its own functioning, the club is responsible and liable for all of the financial transactions of the adjunct.
 - i. As such, all of the financial transactions of the adjuncts and sections must be part of the clubs accounting procedures.
- 4.5 If a section is claiming GST recovery on its expenses then it must pay GST on its income. Therefore a sporting adjunct that raises its own funds must pay GST on that money, to be able to claim GST on any expenses.
- 4.6 Taxation is paid at 28 cents in the dollar on all interest earned outside the circle of membership. If your organisations net income is above \$1,000 per year, you may be eligible for a deduction of up to \$1,000. If you subtract this amount from your organisations income, you reduce the amount of tax to

pay. To qualify for this deduction, your organisation will need to have written rules. An organisation without rules or a constitution won't qualify for the \$1,000 income deduction. Friendly societies are exempt from all tax on interest.

4.7 Sporting adjuncts with their own bank accounts will only be able to claim the exemption and allowance if they have a separate IRD number and qualify as completely separate bodies as defined above. Some clubs have not been including the interest earned by sporting adjuncts in their taxation declaration.

4.8 If income from interest and all taxable sources will not exceed \$1,000 then application for an Exemption Certificate from IRD should be considered, to avoid the deduction of Resident Withholding Tax.

4.9 The outcome of these errors has been that some clubs, when audited by IRD have been faced with not only paying the amounts determined to be owing but also facing financial penalties for late payments.

4.10 The solution to this matter is relatively simple.

The club structure needs to be such that while adjuncts can control their own affairs and make their own decisions as to fundraising, tournament entries, and operation and expenditure on prizes for such functions, all of the financial transactions of each adjunct or section are handled through the main club account and separately recorded within the club's own general ledger.

This enables each adjunct to have, at anytime, a statement of its financial position.

Including sporting adjuncts accounts into the main account means the adjunct has no access to earning interest in their own right and the taxation of such no longer poses a problem.

4.11 It is vital that every club:

- (a) Reviews its accounting procedures to ensure that it is not unintentionally underestimating its tax and GST liabilities.
- (b) Ensures that all accounts established for sporting adjuncts, special interest sections or special projects or funds are identified and that all the income and expenditure of those accounts are included in the main club accounts.

The liability for taxation and the implementation of accounting systems to ensure that the correct amount of tax and GST is paid can be a complicated process.

5 SPORTING ADJUNCTS

- 5.1 The association's auditor has drawn attention to the fact that some of the sporting associations that operate the tournaments are not separately incorporated bodies, but were organising tournaments under the name of Clubs New Zealand. Some are handling significant amounts of money, in some cases for considerable periods of time. The auditor pointed out that those funds should properly come under the overall control and responsibility of the association.
- 5.2 The issue is an important one and there is a clear lesson, for this association and for all member clubs. If the sporting codes/adjuncts are not separate legal entities by having become incorporated societies in their own right, then this association or the individual club respectively, may be legally liable for all financial matters conducted by the sporting code/adjunct in question.

6 PRIZES AND PAYMENTS TO AMATEUR SPORTS PERSONS

- 6.1 IRD has clarified the rules concerning prizes in all sports tournaments. They are as follows:
- All entry forms should contain the following statement by the individual:
'I hereby confirm that I am an amateur sports person and this statement is made in view of the income tax requirement.
- Signature _____ Date _____
- 6.2 Where prize money over \$500 is paid to an individual, withholding tax at the rate of 20 cents in the dollar is to be deducted for all amounts in excess of \$500.
- Therefore if the prize is \$600, \$20 tax is paid on \$100.
- The tax is to be deducted at the source, i.e. deducted from the prize before it is paid to the winners.
- 6.3 If the winner is not a professional sportsperson, in other words an amateur, the withholding tax will be refunded when their annual tax return is filed.
- 6.4 The responsibility for paying the withholding tax to IRD is that of the organizing club that is funding the event. In the case of Clubs New Zealand sports grants and prizes, Clubs New Zealand is responsible for the tax and will deduct it from the prizes paid in excess of \$500.
- 6.5 All winners that receive prizes in excess of \$500 that have tax deducted are required to complete and sign an IR 330 form. It is vital that the winner's IRD number is correctly stated on the form otherwise monthly PAYE returns will be incomplete, and it may be difficult for the recipient to reclaim the tax.

The tax is to be declared as part of the club's monthly PAYE return.

- 6.6 The responsibility for ensuring the tax is deducted lies with the organising Club. Failure to deduct the tax could result in the club being liable for the tax and subsequent penalty charges.

7 PAYMENT OF DEDUCTIONS TO IRD

- 7.1 Where deductions have been made from withholding payments, they must be included with the monthly payments of PAYE as deducted from employees and paid in to IRD.
- 7.2 At the end of the year the total payments made must be reconciled with the deductions shown on all the club's copies of certificates for employees and contractors.