Significant GST changes on the way for Not for Profit organisations

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Registered New Zealand Not for Profit organisations can access a range of tax concessions compared to their for Profit counterparts; they can register for and claim GST refunds on a lot of their expenses, and this includes organisations who don't meet the $60,000 threshold for registration.

However, a significant change has been made to how Not for Profit organisations can claim GST credits on their assets. Put simply, if a Not for Profit organisation has claimed GST credits for the maintenance or purchase of an asset and then sells that asset in the future, the sale proceeds will be subject to GST regardless of whether the asset has been used to generate taxable activity if:

- zero-rating rules do not apply to the sale
- GST input credits have been claimed for maintenance and/or operating costs for the asset.

It's also critical to note that these new rules are retrospective and apply to any asset sales completed on or after 15 May 2018.

The new rules could also apply to many other instances of asset disposal including insurance claims paid on an asset as this is treated as a sale for GST purposes.

There is a limited opportunity for organisations to act prior to 31 March 2021 to ensure that GST is not payable on any future sale.

Case study

For example, a church historically purchased a hall next to its premises for the use of parishioners as well as the public for a small fee; fees collected have never exceeded the $60,000 compulsory GST registration threshold.

The GST input credit for the purchase, ongoing maintenance and operating costs of both the hall and the church claimed under the GST registration of the church.

If the church is sold, under the new rules GST will be payable. As a result, the church has chosen to treat the activity within the property as non-taxable and exclude it from the GST base. The church has stopped claiming any input tax deductions for the capital and operating costs of the property.

The church therefore makes an election to the IRD (prior to 31 March 2021). As part of this election, the church has calculated the GST repayable which is:

- the GST input tax claimed for the initial purchase of the church
- the GST input tax claimed relating to the operating costs to maintain the church over the past seven-year period.

The IRD accepts this election and the GST repayable under the calculation is included in the next GST return filed by the church.

GST will not be payable on the eventual sale of the church.

Next steps

There's still time for Not for Profit organisations to protect their existing assets from this new legislation, but you will need to act quickly. Prior to 31 March 2021, NFPs will need to ensure they won't be charged GST output at the time of asset disposal by:

- determining the extent of your taxable activity
- determining the applicable assets and if they may be subject to a future sale, and collate any relevant information about this
- calculating the amount of GST payable under the election; in the return for the taxable period in which the election date occurs, output tax must be included of an amount equal to all input tax claimed for the capital cost of the asset
- calculating input tax relating to the operating costs of the asset in the past seven-year period and declare these assets to Inland Revenue before the election date.

There's also an opportunity to take advantage of a transitional rule in these GST changes if you have claimed GST tax credits that you anticipate being less than the output tax for the disposal of an asset that appreciates in value.

Again, it's critical that Not for Profit organisations act quickly, so please be sure to get in touch with your Grant Thornton advisor to expedite the necessary steps to protect your assets from the rule changes.

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