

Are COVID-19 grants and funding tax free?

Most people would think that money provided by the Government to support people and business during a crisis would be tax free? Otherwise, it's like giving money with one hand and then taking it away with the other, isn't it?

But, the tax laws don't work like that. To make a payment tax-free, legislation is required to enable it to be classified as exempt income or non-assessable non-exempt income. In general, any income received will be assessable unless the Government has legislated for it to be tax-free. JobKeeper for example was not tax free and anyone who received it in 2020-21 will need to declare it in their income tax return.

At the Federal Government level, the Prime Minister recently announced that the COVID-19 Disaster Payment will be tax free and legislation enabling this change is before Parliament. Other payments however, such as Pandemic Leave Disaster Payment, remain taxable.

The Treasurer has also been granted the power to make State and Territory grants tax-free but only from 13 September 2020, and only if they request the Commonwealth Government to make it tax free. If you're confused, it's not surprising. The result is a mix of tax treatments depending on what support you received and from whom. To date, only a series of Victorian business grants are tax-free (but we expect more will be made tax free).

The general rule is that grants are likely to be taxable unless they are specifically excluded from tax. If the grant relates to your continuing business activities, then it is likely to be included in assessable income for income tax purposes. The position can be different in cases where the

payment is made so that the entity can commence a new business or cease carrying on a business but there will still often be some tax implications.