



GOVERNANCE RISK & OPERATIONS

Sponsorship vs Donation: The Coding Mistake That Creates a Real GST Gap

A sponsor calling it a donation doesn't make it one. Advertising, signage or naming rights given in return make it a taxable supply

A common and specific bookkeeping mistake sees finance teams code sponsorship payments as donations, when the ATO treats the two very differently. Connecting directly to the sponsorship governance discussed earlier in this series, this is not a minor coding preference. It is the difference between a payment with no GST implications and one where your association must remit GST, being one-eleventh of the payment if the price is GST-inclusive.

Which rules apply to your association?

The law depends on how your association is set up. A **company limited by guarantee** follows the Corporations Act 2001 (Cth) and its constitution. An **incorporated association** follows its state or territory associations Act and its rules. A **registered charity** also follows the ACNC Act and the ACNC Governance Standards, and some Corporations Act rules are replaced for charities that are companies. Check your own governing documents, and get advice before decisions with legal consequences.

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The Test That Actually Decides The Treatment

The distinguishing question is whether the association has entered a binding obligation to provide something in return for the payment. A gift or grant, where the funder has only an expectation the money will be used well, with no binding obligation on the association to provide anything specific in exchange, is not a supply and carries no GST implications. A sponsorship arrangement is different in exactly this respect: where the association agrees to provide advertising, promotional signage, naming rights, or any other material benefit in return, that payment is consideration for a taxable supply, not a gift, and GST applies if the association is registered or required to be registered (a not-for-profit must register once its GST turnover reaches \$150,000). A simple acknowledgement that only recognises the giver's generosity generally does not make it a supply, so check what was actually agreed.

The Common, Costly Mistake Worth Naming Directly

A common problem is finance teams treating sponsorship income as a donation because it feels simpler, or because the payment is colloquially described that way by the sponsor, without checking whether the association actually gave anything in return. This miscoding creates a gap between the association's own ledger and its actual GST obligations, one that typically only surfaces during a review or audit, well after the relevant transactions have already occurred. A sponsor calling their payment a donation does not make it one for GST purposes. What actually determines the treatment is whether your association gave anything of identifiable value in return, such as advertising, promotional signage or naming rights, rather than a simple acknowledgement of the sponsor's generosity.

The Reciprocal Obligation Worth Understanding

Where both the association and the sponsor are registered for GST, both sides of a true sponsorship arrangement carry GST obligations. The association charges and remits GST on the advertising or benefit it provides, and the sponsor can generally claim an input tax credit where the sponsorship was made for business purposes. This is a two-sided transaction for GST purposes, not a one-directional payment the association simply receives and reports as income. For the same reason, a sponsorship that provides a material benefit is not a tax-deductible gift for the sponsor.

- Confirm whether your association has entered a binding obligation to provide something in return for any payment before classifying it as a gift, grant, or sponsorship for GST purposes.
- Treat any sponsorship involving advertising, promotional signage or logo placement, or naming rights as a taxable supply requiring GST if your association is registered or required to be registered, rather than defaulting to donation treatment.
- Review your chart of accounts and bookkeeping practice specifically for sponsorship income miscoded as donations, connecting directly to the event GST discipline discussed earlier in this series.
- Communicate clearly with sponsors about the actual GST treatment of their payment before the agreement is finalised, avoiding a mismatch between what the sponsor expects and what your association is required to report.
- Document what benefit is being provided in exchange for each sponsorship payment, since this documentation is what actually supports the GST treatment applied if it is ever reviewed.

Sponsorship and donation are not interchangeable labels for the same kind of payment, and the legal and tax distinction between them rests on a specific, checkable question: what, if anything, did your association actually agree to provide in return. Getting this classification right at the point of accepting the payment avoids a considerably more difficult correction later.

This is one of the practical governance topics built into our Board Director course, alongside the papers, tools and frameworks that turn the principle into your board's actual practice. [Explore the course](#)

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BOARDROOM ACTION WORKSHEET

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Turn the resource into evidence, a decision and an accountable next step. Keep the completed record in your association's approved board records system.

1 What is the issue or decision?

State the governance question in one clear sentence.

2 What evidence do we already have?

Record the facts, source documents and stakeholder evidence available now.

3 What evidence is still needed?

Identify the legal, regulatory, financial, member or operational information still required.

4 What is the agreed next action?

Capture the owner, timeframe and how the matter will return to the board.

Action owner	Review date	Board decision or resolution

General education, not legal, financial, tax, clinical or governance advice. Confirm specifics at the relevant primary source or with your own qualified adviser. Nexus Leadership is operated by Lipstick Consulting Pty Ltd · ABN 15 619 120 482.

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