

[NEW LEGISLATION](#) > [ORDER IN COUNCIL](#) > [SPECIAL REPORT](#)

Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations 2023

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The Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations 2023 Order comes into effect from 1 April 2023. It increases the fringe benefit tax prescribed rate of interest for low-interest employment-related loans from 6.71% to 7.89%

This special report provides early information on that change ahead of an upcoming edition of the *Tax Information Bulletin*.

Table of Contents

Order	3
Background	3
Effective date	3
Further information	4
About this document	4

Order

Sections RA 21(3) and (4) of the Income Tax Act 2007

The Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations 2023 was made on 27 February 2023.

The Order increases the fringe benefit tax (FBT) prescribed rate of interest for low-interest employment-related loans from 6.71% to 7.89%.

Background

The FBT rules tax non-cash benefits provided to employees. Included in the definition of 'fringe benefit' is any employment-related loan on which the employer is charging a rate of interest that is below the market rate. The interest differential is taxable.

A prescribed rate set by regulations is used as a proxy for the market rate of interest to save employers the compliance costs associated with determining the market rate relevant to loans they have provided to their employees.

Section RA 21(3) of the Income Tax Act 2007 permits the making of regulations by Order in Council to set a prescribed rate of interest for calculating FBT on low-interest loans. Once a rate is set, it remains the prescribed rate until changed by a subsequent Order in Council.

By administrative convention, the FBT prescribed rate of interest is based on the 'floating first mortgage new customer housing rate' series published by the Reserve Bank (RBNZ) each month. It is updated when there has been an increase or decrease in the RBNZ rate of 20 or more basis points since the FBT rate was last set. The RBNZ rate for December 2022 was 7.89%. This is up from 6.71%, the rate for August 2022, when the FBT prescribed rate of interest was last set. The FBT prescribed rate of interest is being lifted accordingly.

Effective date

The new prescribed rate of 7.89% applies for the quarter beginning 1 April 2023 and subsequent quarters.

Further information

The new regulations can be found at:

<https://www.legislation.govt.nz/regulation/public/2023/0022/7.0/whole.html#LMS817024>

About this document

Special reports are published shortly after new legislation is enacted or Orders in Council are made to help affected taxpayers and their advisors understand the consequences of the changes. These are published in advance of an article in the *Tax Information Bulletin*.