

Hon Simon Watts, Minister of Revenue

Information Release

Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations (No 3) 2025

December 2025

Availability

This information release is available on Inland Revenue's tax policy website at:
<https://www.taxpolicy.ird.govt.nz/publications/2025/ir-cab-25-sub-0236>

Documents in this information release

#	Reference	Type	Title	Date
01	IR2025/416	Policy Report	Decrease in FBT prescribed rate of interest (No 3)	28 October 2025
02	LEG-25-SUB-0236	Cabinet Paper	Income Tax (Fringe Benefit Tax Interest on Loans) Amendment Regulations (No 3) 2025	20 November 2025
03	LEG-25-MIN-0236	Cabinet Minute	Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations (No 3) 2025	20 November 2025

Additional information

The Cabinet paper was considered by the Cabinet Legislation Committee on 20 November 2025 and confirmed by Cabinet on 24 November 2025.

One attachment to the Cabinet paper is not included in this information release as it is publicly available:

- [Income Tax \(Fringe Benefit Tax, Interest on Loans\) Amendment Regulations \(No 3\) 2025 \(SL 2025/271\)](#)

Information withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act). Where this is the case, the relevant sections of the Act that would apply are identified. Where information is withheld, no public interest was identified that would outweigh the reasons for withholding it.

Sections of the Act under which information was withheld:

9(2)(a) to protect the privacy of natural persons, including deceased people

Accessibility

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Inland Revenue
Te Tari Taake

POLICY

Tax policy report: **Decrease in FBT prescribed rate of interest**

Date:	28 October 2025	Priority:	Medium
Security level:	In Confidence	Report number:	IR2025/416

Action sought

	Action sought	Deadline
Minister of Finance	Agree to adjust the FBT prescribed rate of interest	5 November 2025
Minister of Revenue	Agree to adjust the FBT prescribed rate of interest. Agree to undertake Ministerial consultation on the attached Cabinet paper	5 November 2025

Contact for telephone discussion (if required)

Name	Position	Telephone	Suggested first contact
Graham Tubb	Principal Policy Advisor	s 9(2)(a)	<input type="checkbox"/>
Maria Deligiannis	Policy Advisor	s 9(2)(a)	<input checked="" type="checkbox"/>

28 October 2025

Minister of Finance
Minister of Revenue

FBT prescribed rate of interest

Purpose

1. This report seeks your agreement to act to lower the prescribed interest rate used to calculate fringe benefit tax (FBT) on low-interest loans provided by employers to employees from 6.67% to 6.29%. This change is required to align the rate with current market interest rates. The new rate is recommended to apply from the quarter beginning 1 October 2025.
2. This report also seeks your approval for the Parliamentary Counsel Office (PCO) to draft an Order in Council to adjust the rate. As changes to the FBT prescribed interest rate have become a routine matter, your approval is sufficient for PCO to draft the Order. PCO can provide the Order in Council directly to the Cabinet Office.

Background

3. 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 that they have provided to their employees.
4. The Income Tax Act 2007 permits the making of regulations by Order in Council to set a prescribed rate of interest for the purpose of calculating FBT on low-interest loans. Once a rate is set, it remains the prescribed rate until changed by a subsequent Order in Council.
5. The prescribed interest rate was last changed from 7.38% to 6.67% effective from the quarter beginning 1 July 2025. As a matter of practice, government changes the prescribed rate when movements in the Reserve Bank's first home mortgage rate changes by more than 20 basis points.
6. The process of adjusting the prescribed rate will no longer involve the making of an Order in Council after the enactment of the Taxation (Annual Rates for 2025-26, Compliance Simplification, and Remedial Measures) Bill expected to be in March 2026. Thereafter, the Commissioner will hold a direct power to make determinations affecting the rate.

Appropriate prescribed rate determination

7. The Reserve Bank conducts a survey of floating first mortgage new customer housing interest rates on the last day of each month. The rate is calculated as the average interest rate for the surveyed institutions, weighted on each institution's share of total lending for housing purposes. This Reserve Bank series is a suitable indication of general market interest rates and is therefore used as the benchmark for setting the FBT prescribed rate.

8. The floating first mortgage new customer housing rate of 6.29% for September 2025 indicates that the current FBT prescribed rate of 6.67% is materially higher than the prevailing market rate.
9. Longstanding administrative policy has been to adjust the FBT prescribed interest rate when there has been a change in the floating first mortgage new customer housing rate of 20 basis points or more. The proposed new FBT prescribed rate is 38 basis points lower than the 2025 July quarter rate of 6.67%. We recommend that the rate be adjusted to ensure that there is no long-term misalignment.

Timing

10. Where there is to be a decrease in the FBT prescribed rate, the Income Tax Act requires regulations (an Order in Council) to be made at least one month before the end of the quarter the new rate is to apply from. Therefore, in order to apply for the quarter commencing 1 October 2025, an Order needs to be made by 30 November 2025.
11. A Cabinet paper recommending that Cabinet approve the Order in Council and authorise its submission to the Executive Council is attached.

Financial Implications

12. Lowering the FBT prescribed interest rate to 6.29% will decrease the amount of tax revenue over the 2025/26 fiscal year by approximately \$0.54 million. The full year impact is estimated to be a decrease in tax revenue of \$0.72 million per year for subsequent years.

	\$m - increase / (decrease)			
Vote Revenue Minister of Revenue	2025/26	2026/27	2027/28	2028/29 & Outyears
Crown revenue and receipts:				
FBT revenue	(0.750)	(1.000)	(1.000)	(1.000)
Company tax	0.210	0.280	0.280	0.280
Net tax revenue	(0.540)	(0.720)	(0.720)	(0.720)
Total Operating	0.540	0.720	0.720	0.720

13. Because this adjustment is implementing a prescribed change in rate, and there is no ministerial discretion due to the rate change being based off a formula in legislation, the fiscal impacts are treated as forecast changes. This means the fiscal impact flows through to OBEGAL and will have no impact on allowances.

Administrative implications

14. There are no significant administrative implications.

Consultation

15. The Treasury has been consulted in the preparation of this report and the attached Cabinet paper.

Next steps

16. Attached is a paper to take to the Cabinet Legislation Committee that recommends the approval of the Order in Council and the authorisation of its submission to the Executive Council. If you agree to support adjustment of the FBT rates, the paper should be referred to the Cabinet Office by 10am, Thursday 13 November 2025. This would enable the Cabinet Legislation Committee to consider the paper on 20 November 2025 and for the Order in Council to be made on or before 30 November 2025.
17. PCO will arrange for the Order in Council to be provided directly to the Cabinet Office.
18. The rate changes will be published on the Inland Revenue website once the Order in Council has been made.

Recommended action

We recommend that you:

Minister of Finance

Minister of Revenue

- a) **agree** that the FBT prescribed rate of interest for low-interest employment-related loans should be lowered to 6.29%, effective from 1 October 2025;

Agreed/Not agreed

Agreed/Not agreed

- b) **agree** that the revised FBT prescribed rate of interest should apply from 1 October 2025 and that for that purpose the order should be made by the Governor General on or before 30 November 2025;

c)

Agreed/Not agreed

Agreed/Not agreed

- d) **note** the following changes as a result of the decisions on recommendations (a) and (b) above, with the corresponding impact on the operating balance and/or net core Crown debt;

	\$m - increase / (decrease)			
Vote Revenue Minister of Revenue	2025/26	2026/27	2027/28	2028/29 & Outyears
Crown Revenue and Receipts:				
Net tax revenue	(0.540)	(0.720)	(0.720)	(0.720)
Total Operating	0.540	0.720	0.720	0.720

Noted

Noted

- e) **note** that the fiscal impacts will be treated as a forecast change, and so will have no impact on allowances;

Noted

Noted

- f) **agree** that the Parliamentary Counsel Office should be instructed to draft an Order in Council to implement the proposed rate change;

Agreed/Not agreed

Agreed/Not agreed

g) **Agree** to undertake Ministerial consultation on the attached Cabinet paper


N/A

Agreed/Not agreed

Graham Tubb

Principal Policy Advisor
Policy

s 9(2)(a)



Hon Nicola Willis

Minister of Finance
/ /2025

Hon Simon Watts

Minister of Revenue
/ /2025

In Confidence

Office of the Minister of Revenue

Chair, Cabinet Legislation Committee

INCOME TAX (FRINGE BENEFIT TAX, INTEREST ON LOANS) AMENDMENT REGULATIONS (NO 3) 2025

Proposal

- 1 This paper seeks the Cabinet Legislation Committee's agreement to submit an Order in Council introducing the Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations (No 3) 2025 to the Executive Council. The proposal is to decrease the FBT prescribed interest rate for low-interest, employment-related loans from 6.67% to 6.29% in line with a decrease in market interest rates.

Relation to government priorities

- 2 This is a routine operational adjustment that requires Cabinet approval.

Policy

- 3 The fringe benefit tax (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 that they have provided to their employees.
- 4 The Income Tax Act 2007 ('the Act') allows regulations to be made to set the prescribed rate. Once a rate is set, it remains the prescribed rate of interest until changed by a subsequent Order in Council. The current FBT prescribed rate, which has applied since 1 July 2025, is 6.67%.
- 5 The prescribed rate of interest is based on a Reserve Bank survey of floating first mortgage new customer housing interest rates on the last day of each month. This is calculated as the average interest rate for the surveyed institutions, weighted on each institution's share of total lending for housing purposes. This Reserve Bank series is selected as the benchmark for setting the FBT prescribed rate because it is seen as a good indication of market interest rates.

Cost-of-living implications

- 6 The proposal does not have any direct cost-of-living implications. The lower FBT prescribed rate will decrease employees' interest costs for employment-related loans, unless the decrease is not passed on to employees, in which case businesses will incur a lower FBT charge.

Timing and 28-Day Rule

- 7 The Act provides that regulations that reduce the rate may apply for the current quarter if made at least one month before the end of the quarter.
- 8 In accordance with the Act, I recommend that the regulations to lower the rate apply from 1 October 2025 – the beginning of the current quarter – provided that they are made before 30 November 2025. The regulations are proposed to come into force on 25 December 2025. No waiver of the 28-day rule is sought.

Compliance

- 9 The regulations comply with each of the following, where applicable
- | | | |
|-----|---|----------|
| 9.1 | the principles of the Treaty of Waitangi applicable | Not |
| 9.2 | the New Zealand Bill of Rights Act 1990 applicable | Not |
| 9.3 | the Human Rights Act 1993 applicable | Not |
| 9.4 | the principles and guidelines set out in the Privacy Act 1993 applicable | Not |
| 9.5 | relevant international standards and obligations applicable | Not |
| 9.6 | the Legislation Guidelines (2021 edition), which are maintained by the Legislation Design and Advisory Committee. | Complies |

Regulations Review Committee

- 10 Officials consider that there are no grounds for the Regulations Review Committee to draw the Order in Council to the attention of the House under Standing Order 327.

Certification by Parliamentary Counsel

- 11 The regulations have been certified by Parliamentary Counsel as being in order for submission to Cabinet, if submitted no later than 30 November 2025.

Impact Analysis

- 12 The Ministry for Regulation has determined that this proposal is exempt from providing a Regulatory Impact Statement (RIS) on the grounds that it has no or only minor economic, social or environmental impacts.
- 13 The proposal will not increase compliance costs as it is simply a change in the prescribed interest rate.

Use of external resources

- 14 No external resources were used for developing this proposal or in the preparation of this paper.

Financial implications

- 15 Lowering the FBT prescribed interest rate to 6.29% will decrease the amount of tax revenue over the 2025/26 fiscal year by approximately \$0.54 million. For subsequent years, the impact is estimated to be a decrease in tax revenue of \$0.72 million per year.

	\$m - increase / (decrease)			
Vote Revenue Minister of Revenue	2025/26	2026/27	2027/28	2028/29 & Outyears
Crown revenue and receipts:				
FBT revenue	(0.750)	(1.000)	(1.000)	(1.000)
Company tax	0.210	0.280	0.280	0.280
Net tax revenue	(0.540)	(0.720)	(0.720)	(0.720)
Total Operating	0.540	0.720	0.720	0.720

- 16 Because this adjustment is implementing a prescribed change in rate, the fiscal impacts are treated as forecast changes. This means the fiscal impacts flows through to OBEGAL and have no impact on allowances.

Communications

- 17 Inland Revenue will publish these changes on its website.

Proactive Release

- 18 I propose to proactively release this Cabinet paper, associated minutes, and key advice papers in whole within 30 working days of Cabinet making final decisions.

Consultation

19 The Treasury has been consulted in the preparation of this paper.

Recommendations

I recommend that the Cabinet Legislation Committee:

- 1 **note** that the Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations (No 3) 2025 set the prescribed rate of interest for calculating the taxable benefit of low-interest, employment-related loans.
- 2 **agree** that, consistent with the results of the Reserve Bank's survey for September 2025, the fringe benefit tax prescribed rate of interest should be lowered from 6.67% to 6.29% from the quarter commencing on 1 October 2025. This requires the Order to be made on or before 30 November 2025.
- 3 **note** the following forecast changes as a result of the decisions in recommendations 2 and 3, with a corresponding impact on the operating balance and net core Crown debt.

	\$m - increase / (decrease)			
Vote Revenue Minister of Revenue	2025/26	2026/27	2027/28	2028/29 & Outyears
Crown Revenue and Receipts:				
Net tax revenue	(0.540)	(0.720)	(0.720)	(0.720)
Total Operating	0.540	0.720	0.720	0.720

- 4 **note** that the fiscal impacts will be treated as a forecast change, and so will have no impact on allowances.
- 5 **authorise** the submission to the Executive Council of the Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations (No 3) 2025.

Authorised for lodgement

Hon Simon Watts

Minister of Revenue



Cabinet

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Report of the Cabinet Legislation Committee: Period Ended 21 November 2025

On 24 November 2025, Cabinet made the following decisions on the work of the Cabinet Legislation Committee for the period ended 21 November 2025:

Not in scope



LEG-25-MIN-0236


**Income Tax (Fringe Benefit Tax, Interest on Loans)
Amendment Regulations (No 3) 2025**
Portfolio: Revenue

CONFIRMED

Not in scope



Not in scope



Rachel Hayward
Secretary of the Cabinet