

# Hon Simon Watts, Minister of Revenue

## Information Release

### Taxation (Use of Money Interest Rates) Amendment Regulations 2024

March 2025

#### Availability

This information release is available on Inland Revenue's tax policy website at <https://taxpolicy.ird.govt.nz/publications/2025-ir-leg-24-sub-0260>

#### Documents in this information release

#	Reference	Type	Title	Date
1	IR2024/429	Policy report	Use of money interest rates review 2024	6 November 2024
2	LEG-24-SUB-0260	Cabinet paper	Taxation (Use of Money Interest Rates) Amendment Regulations 2024	5 December 2024
3	LEG-24-MIN-0260	Minute	Minute of Decision: Taxation (Use of Money Interest Rates) Amendment Regulations 2024	5 December 2024

#### Additional information

The Cabinet paper was considered by the Cabinet Legislation Committee on 5 December 2024 and confirmed by Cabinet on 9 December 2024.

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

- [Order in Council – Taxation \(Use of Money Interest Rates\) Amendment Regulations 2024](#)

#### 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

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**Inland Revenue**  
Te Tari Taake

## POLICY

**Tax policy report: Use of money interest rates review 2024**

<b>Date:</b>	6 November 2024	<b>Priority:</b>	Medium
<b>Security level:</b>	In Confidence	<b>Report number:</b>	IR2024/429

### Action sought

	<b>Action sought</b>	<b>Deadline</b>
Minister of Finance	<b>Agree</b> to adjust the use of money interest rates as set out in the report.	12 November 2024
Minister of Revenue	<b>Agree</b> to adjust the use of money interest rates as set out in the report. <b>Authorise</b> the lodgement of the attached Cabinet paper for consideration at the LEG meeting on 5 December 2024.	12 November 2024

### Contact for telephone discussion (if required)

<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>Suggested first contact</b>
Paul Fulton	Principal Policy Advisor	s 9(2)(a)	<input type="checkbox"/>
Thomas McKay	Policy Advisor	s 9(2)(a)	<input checked="" type="checkbox"/>

## **Use of money interest rates review 2024**

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### **Purpose**

1. This report seeks your agreement to decrease the use of money interest (UOMI) rates in line with the latest changes in market interest rates.

### **Context and background**

2. The UOMI rates, along with other rates used in the tax system, are reviewed regularly to ensure that they align with market interest rates. The rates are calculated using formulae based on the Reserve Bank of New Zealand (RBNZ) survey of interest rates.
3. The UOMI rates are an important component of tax compliance rules. By changing with the underlying market rates, the UOMI rates provide taxpayers with the incentive to pay the right amount of tax at the right time. They apply to all revenue and duties.

### **UOMI rates**

4. There are two UOMI rates:
  - 4.1 the taxpayer's paying rate (also known as the UOMI underpayment rate), which is charged on underpayments of tax to Inland Revenue;
  - 4.2 the Commissioner's paying rate (also known as the UOMI overpayment rate), which is paid by the Commissioner on money paid to Inland Revenue above a taxpayer's tax liability.
5. The underpayment rate is currently 10.91% while the overpayment rate is currently 4.67%, based on RBNZ figures for May 2023 and applying since 29 August 2023.

### **Principles for updating the rates**

6. Longstanding administrative principles in setting the rates provide that both UOMI rates should be adjusted if:
  - 6.1 the RBNZ 90-day bank bill rate or the floating first mortgage new customer housing rate moves by 100 basis points or more from the figures used to calculate the last rate change; or
  - 6.2 one of these indexes moves by 20 basis points or more and the UOMI rates have not been adjusted in the last 12 months.
7. When regulations are made altering the UOMI rates, the adjustment is applied from the day after the next standard provisional tax payment date – which, in this case, is 16 January 2025.

8. The formula for setting the rates is set out in the Taxation (Use of Money Interest Rates Setting Process) Regulations 1997 as follows:
  - 8.1 Section 2 of the Regulations provides that the taxpayer's paying rate is set at the RBNZ floating first mortgage new customer housing rate plus 250 basis points (or 2.5%);
  - 8.2 Section 3 of the Regulations provides that the Commissioner's paying rate is set at the RBNZ 90-day bank bill rate less 100 basis points (or 1%). However, if this calculation would produce a figure lower than 0%, the rate is instead set at 0%, to ensure overpayments do not accrue negative interest.
9. The floating first mortgage new customer housing rate is a proxy for a debt that a taxpayer might prioritise over their tax obligations. In the absence of a UOMI charge, a taxpayer wanting to borrow money could simply underpay their tax and use Inland Revenue like a bank rather than borrow from a bank at a commercial interest rate. A conservative margin of 250 basis points is added to the mortgage rate in calculating the underpayment UOMI rate because the Commissioner does not have information about the likelihood of any individual taxpayer paying the UOMI charged to them (i.e., the taxpayer's creditworthiness).
10. The Regulations provide that the methodology for setting the interest rate for overpaid tax is the latest RBNZ 90-day bank bill rate less 100 basis points. The RBNZ 90-day bank bill rate is the monthly average of the daily standard rates, and approximates the return a taxpayer might expect on a low-risk investment in the New Zealand Government. Ensuring that the Commissioner pays less interest to the taxpayer on overpaid tax than the taxpayer would receive as a return from a low-risk bond aims to prevent a payment of tax to Inland Revenue being used as an investment.

## Results of latest RBNZ figure review

11. It is now more than 12 months since the UOMI rates were last set so the threshold for a move is 20 basis points or more. According to RBNZ figures for August 2024, the RBNZ 90-day bank bill rate has fallen by 37 basis points from its rate when last used to adjust UOMI rates in August 2023, which triggers both UOMI rates to be reset. The UOMI underpayment rate should be decreased to **10.88%**, while the UOMI overpayment rate should be decreased to **4.30%**, as follows:
  - 11.1 The RBNZ floating first mortgage new customer rate has fallen by 3 basis points since May 2023 (the index from the last time the UOMI rates were set). Accordingly, the underpayment rate should also decrease by 3 basis points, from 10.91% to 10.88%.
  - 11.2 The RBNZ 90-day bank bill rate has fallen by 37 basis points since May 2023. Accordingly, the overpayment rate should also decrease by 37 basis points, from 4.67% to 4.30%.
12. As the 90-day bank bill rate has decreased more than the RBNZ floating first mortgage new customer rate, the margin between the UOMI underpayment and overpayment rates will increase from 6.24% to 6.58%.
13. Changing the rates will result in the threshold for future rate changes being reset to a 100 basis points or more movement. A change of 20 basis points or more will only trigger if there is no further reset within 12 months (from January 2026).

## Fiscal impact

14. UOMI applies to both overpayments and underpayments of tax. More is charged by the Commissioner on underpayments than is paid to the taxpayer on overpayments. However, the charges to underpayments are impaired in the Crown accounts to reflect that most UOMI charged is never paid, and therefore must be written off. This means that a decrease in the underpayment rate also produces a decrease in impairment expenditure. The rate of impairment reflects the average repayment rate of recent debt, updated in October each year. The impairment rate for the year ended 30 June 2024 is 66.22%.
15. There is an estimated net increase of \$4.2 million for the 2024/25 fiscal year and \$9.3 million per annum for 2025/26 and later years. The net increase of \$4.2 million for the 2024/25 fiscal year comprises the \$3.6 million increase in revenue and \$0.6 million decrease in impairment expenditure. The net increase of \$9.3 million per annum for 2025/26 and later years comprises the \$8 million increase in revenue and \$1.3 million decrease in impairment expenditure.
16. These are shown in the following tables:

	\$ millions increase / (decrease)				
Vote Revenue Minister of Revenue	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears
Crown Revenue and Receipts:					
Tax revenue	3.600	8.000	8.000	8.000	8.000
Total Operating	(3.600)	(8.000)	(8.000)	(8.000)	(8.000)

	\$ millions increase / (decrease)				
Vote Revenue Minister of Revenue	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears
Non-Departmental Other Expenses:					
Impairment of debt and bad debt write-offs	(0.600)	(1.300)	(1.300)	(1.300)	(1.300)
Total Operating	(0.600)	(1.300)	(1.300)	(1.300)	(1.300)

## Consultation

17. Inland Revenue has consulted with the Treasury and the New Zealand Customs Service (Customs) on this report. They agree with the recommendations.
18. Customs advise that a change in the underpayment UOMI rate will have some small operational and financial impacts. Customs' compensatory interest rate is aligned with the UOMI underpayment rate, and a decrease in the underpayment rate will correspondingly result in a decrease to the compensatory interest rate.

## Next steps

19. 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 adjust the UOMI rates, the paper should be referred to the Cabinet Office by 10am, Thursday 28 November

2024. This would enable the Cabinet Legislation Committee to consider the paper on 5 December 2024.

## Recommended action

We recommend that you:

*Minister of Finance*

*Minister of Revenue*

- a) **agree** to decrease the UOMI underpayment rate to 10.88% (from 10.91%) and to decrease the UOMI overpayment rate to 4.30% (from 4.67%), effective from 16 January 2025;

Agreed/Not Agreed

Agreed/Not agree

- b) **note** the following changes as a result of the decision in recommendation (a) above, with a corresponding impact on the operating balance and/or net debt;

	\$ millions increase / (decrease)				
Vote Revenue Minister of Revenue	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears
Crown Revenue and Receipts:					
Tax revenue	3.600	8.000	8.000	8.000	8.000
Total Operating	(3.600)	(8.000)	(8.000)	(8.000)	(8.000)

Noted

Noted

- c) **approve** the following forecast change in appropriations for Non-Departmental Other Expense as a result of the decision in recommendation (a) above, with a corresponding impact on the operating balance and/or net debt;

	\$ millions increase / (decrease)				
Vote Revenue Minister of Revenue	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears
Non-Departmental Other Expenses:					
Impairment of debt and bad debt write- offs	(0.600)	(1.300)	(1.300)	(1.300)	(1.300)
Total Operating	(0.600)	(1.300)	(1.300)	(1.300)	(1.300)

Approved/Not approved

Approved/Not approved

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

Noted

Noted

- e) **agree** that PCO draft an Order in Council to adjust the UOMI rates;

Agreed/Not Agreed

Agreed/Not agreed

- f) **authorise** the lodgement of the attached Cabinet paper with the Cabinet Office by 10am, Thursday 28 November 2024 for consideration by the Cabinet Legislation Committee at its meeting on 5 December 2024.

Authorised/Not authorised

s 9(2)(a)

**Paul Fulton**

Principal Policy Advisor  
Policy

**Hon Nicola Willis**

Minister of Finance  
/ /2024

**Hon Simon Watts**

Minister of Revenue  
/ /2024



In Confidence

Office of the Minister of Revenue

Chair, Cabinet Legislation Committee

## **TAXATION (USE OF MONEY INTEREST RATES) AMENDMENT REGULATIONS 2024**

### **Proposal**

- 1 This paper seeks the Cabinet Legislation Committee's agreement to submit an Order in Council amending the Taxation (Use of Money Interest Rates) Regulations 1998 to the Executive Council.

### **Executive summary**

- 2 It is proposed to amend the Regulations so the underpayment use of money interest (UOMI) rate is set at 10.88%, while the overpayment UOMI rate is set at 4.30%.

### **Policy**

- 3 The UOMI rates are an important component of tax compliance rules. By changing with the underlying market rates, the UOMI rates provide taxpayers with the incentive to pay the right amount of tax at the right time. They apply to all revenue and duties.
- 4 The Tax Administration Act 1994 provides for the UOMI underpayment and overpayment rates to be set by Order in Council. Once the rates are set, they remain the prescribed UOMI rates unless subsequently changed by another Order in Council.
- 5 The rates are calculated using formulae established in the Taxation (Use of Money Interest Rates Setting Process) Regulations 1997 (the Regulations) and the Reserve Bank of New Zealand (RBNZ) survey of interest rates.
- 6 The Regulations provide that the interest rate for underpaid tax should be set at the RBNZ floating first mortgage new customer housing rate plus 250 basis points. The floating first mortgage new customer housing rate reflects the variable interest rate offered by surveyed institutions to new borrowers for residential property, weighted by each surveyed institution's total lending outstanding for housing purposes.
- 7 The Regulations provide that the interest rate for overpaid tax is set at the latest RBNZ 90-day bank bill rate less 100 basis points, or, if this would produce a negative figure, at 0%. The RBNZ 90-day bank bill rate is the monthly average of the daily standard rates.
- 8 The current underpayment and overpayment rates are 10.91%% and 4.67% respectively. The UOMI rates were last changed by Order in Council with effect from 29 August 2023 and were based on the interest rates for May 2023.

- 9 The RBNZ interest rates for August 2024 indicate that the 90-day bank bill rate has changed by 37 basis points since the rates were last adjusted. I consider that an adjustment of the UOMI rates is necessary to avoid a long-term misalignment. I therefore recommend the overpayment rate be decreased to 4.30%.
- 10 The floating first mortgage new customer housing rate has also changed by 3 basis points since the rates were last adjusted. Therefore, I also recommend that the underpayment rate be decreased to 10.88%.

### **Cost-of-living implications**

- 11 The proposal effectively decreases the cost of tax debt for people and businesses that have underpaid their tax. Conversely, people and businesses that have overpaid their tax will receive slightly less compensation for doing so. These impacts are consistent with movements in market interest rates.

### **Timing**

- 12 I propose to submit the Order in Council giving effect to the change in the UOMI rates to Cabinet for approval and submission to the Executive Council. To minimise compliance costs, it is proposed that the new rates come into force on 16 January 2025, the day after the next standard instalment due date for provisional tax.

### **Compliance**

- 13 The regulations comply with the principles, Acts, guidelines, and requirements set out below:
- |      |  |                |
|------|--|----------------|
| 13.1 | the principles of the Treaty of Waitangi   | Not applicable |
| 13.2 | the New Zealand Bill of Rights Act 1990  | Not applicable |
| 13.3 | the Human Rights Act 1993  | Not applicable |
| 13.4 | the principles and guidelines set out in the Privacy Act 1993  | Not applicable |
| 13.5 | relevant international standards and obligations   | Not applicable |
| 13.6 | the <a href="#">Legislation Guidelines</a> (2021 edition), which are maintained by the Legislation Design and Advisory Committee | Complies       |

### **Regulations Review Committee**

- 14 There are no anticipated 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**

- 15 The Parliamentary Counsel Office has certified that the attached Order in Council is in order for submission to Cabinet.

## Impact analysis

- 16 A Regulatory Impact Assessment is not required because the proposal is of a minor and routine nature and does not substantially alter existing arrangements.

## Financial implications

- 17 The proposal to change the UOMI rates, with the effective date of 16 January 2025, is estimated to result in net positive revenue of approximately \$41.4 million over the forecast period. This number comprises the impact of the changes on both tax revenue and impairment expenditure, as described below.
- 18 The forecast net tax revenue impact of the increased revenue from the underpayment adjustment and overpayment adjustment is shown in the table below:

	\$ millions increase / (decrease)				
Vote Revenue Minister of Revenue	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears
Crown Revenue and Receipts: Tax revenue	3.600	8.000	8.000	8.000	8.000
Total Operating	(3.600)	(8.000)	(8.000)	(8.000)	(8.000)

- 19 However, as a large part of underpayment debt is typically written off, there is a larger change to revenue than is factored above. To represent estimated write-offs, underpayments are impaired in the Crown accounts. The impairment rate of 66.22% is based on debt repayment rates for the year ending June 2024. Forecast impairment expenditure is presented in the table below:

	\$ millions increase / (decrease)				
Vote Revenue Minister of Revenue	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears
Non-Departmental Other Expenses: Impairment of debt and bad debt write-offs	(0.600)	(1.300)	(1.300)	(1.300)	(1.300)
Total Operating	(0.600)	(1.300)	(1.300)	(1.300)	(1.300)

## Communications

- 20 Inland Revenue will publish an article about these changes in its *Tax Information Bulletin*.

## Proactive release

- 21 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

- 22 The Treasury and the New Zealand Customs Service have been consulted in the preparation of this paper and agree with its recommendations.

## Recommendations

I recommend that the Committee:

- 1 **agree** that the UOMI underpayment rate decrease from 10.91% to 10.88%;
- 2 **agree** that the UOMI overpayment rate decrease from 4.67% to 4.30%;
- 3 **agree** that the Taxation (Use of Money Interest Rates) Amendment Regulations 2024 give effect to the rates referred to in recommendations 1 and 2 above;
- 4 **agree** that the Taxation (Use of Money Interest Rates) Amendment Regulations 2024 come into force on 16 January 2025;
- 5 **note** the following changes as a result of the decision in recommendations 1 and 2 above, with a corresponding impact on the operating balance and/or net debt:

	\$ millions increase / (decrease)				
Vote Revenue Minister of Revenue	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears
Crown Revenue and Receipts: Tax revenue	3.600	8.000	8.000	8.000	8.000
Total Operating	(3.600)	(8.000)	(8.000)	(8.000)	(8.000)

- 6 **approve** the following forecast change in appropriations for Non-Departmental Other Expenses as a result of the decision in recommendations 1 and 2, with a corresponding impact on the operating balance and/or net debt:

	\$ millions increase / (decrease)				
Vote Revenue Minister of Revenue	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears
Non-Departmental Other Expenses: Impairment of debt and bad debt write-offs	(0.600)	(1.300)	(1.300)	(1.300)	(1.300)
Total Operating	(0.600)	(1.300)	(1.300)	(1.300)	(1.300)

- 7 **authorise** the submission to the Executive Council of the Taxation (Use of Money Interest Rates) Amendment Regulations 2024.

Authorised for lodgement

Hon Simon Watts

Minister of Revenue



# Cabinet Legislation Committee

## 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.*

### Taxation (Use of Money Interest Rates) Amendment Regulations 2024

**Portfolio**                      **Revenue**

On 5 December 2024, the Cabinet Legislation Committee:

- 1        **agreed** that the use of money interest (UOMI) underpayment rate decrease from 10.91% to 10.88%;
- 2        **agreed** that the UOMI overpayment rate decrease from 4.67% to 4.30%;
- 3        **agreed** that the Taxation (Use of Money Interest Rates) Amendment Regulations 2024 give effect to the rates referred to in paragraphs 1 and 2 above;
- 4        **agreed** that the Taxation (Use of Money Interest Rates) Amendment Regulations 2024 come into force on 16 January 2025;
- 5        **noted** the following changes as a result of the decision in paragraphs 1 and 2 above, with a corresponding impact on the operating balance and/or net debt:

	\$ millions increase / (decrease)				
Vote Revenue Minister of Revenue	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears
Crown Revenue and Receipts: Tax revenue	3.600	8.000	8.000	8.000	8.000
Total Operating	(3.600)	(8.000)	(8.000)	(8.000)	(8.000)

- 6 **approved** the following forecast change in appropriations for Non-Departmental Other Expenses as a result of the decision in paragraphs 1 and 2 above, with a corresponding impact on the operating balance and/or net debt:

	<b>\$ millions increase / (decrease)</b>				
Vote Revenue Minister of Revenue	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29 &amp; outyears</b>
Non-Departmental Other Expenses: Impairment of debt and bad debt write-offs	(0.600)	(1.300)	(1.300)	(1.300)	(1.300)
Total Operating	(0.600)	(1.300)	(1.300)	(1.300)	(1.300)

- 7 **authorised** the submission to the Executive Council of the Taxation (Use of Money Interest Rates) Amendment Regulations 2024 [PCO 26853/3.0].

Tom Kelly  
Committee Secretary

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**Present:**

Hon Chris Bishop (Chair)  
Hon Simeon Brown  
Hon Shane Jones  
Hon Brooke van Velden  
Hon Tama Potaka  
Hon Casey Costello  
Hon Nicole McKee  
Hon Simon Watts  
Hon Nicola Grigg  
Hon Andrew Bayly  
Hon Scott Simpson, MP  
Todd Stephenson, MP

**Officials present from:**

Officials Committee for LEG  
Leader of the House's Office