

# Hon Simon Watts, Minister of Revenue

## Information Release

### Taxation (Use of Money Interest Rates) Amendment Regulations 2025

May 2025

#### Availability

This information release is available on Inland Revenue's tax policy website at <https://www.taxpolicy.ird.govt.nz/publications/2025/ir-leg-25-sub-0045>

#### Documents in this information release

#	Reference	Type	Title	Date
1	IR2025/037	Policy report	Use of money interest rates review 2025	27 February 2025
2	LEG-25-SUB-0045	Cabinet paper	Taxation (Use of Money Interest Rates) Amendment Regulations 2025	3 April 2025
3	LEG-25-MIN-0045	Minute	Minute of Decision: Taxation (Use of Money Interest Rates) Amendment Regulations 2025	3 April 2025

#### Additional information

The Cabinet paper was considered by the Cabinet Legislation Committee on 3 April 2025 and confirmed by Cabinet on 7 April 2025.

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 2025](#)

#### 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 2025**

<b>Date:</b>	27 February 2025	<b>Priority:</b>	Medium
<b>Security level:</b>	In Confidence	<b>Report number:</b>	IR2025/037

**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.	4 March 2025
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 3 April 2025.	4 March 2025

**Contact for telephone discussion (if required)**

<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>Suggested first contact</b>
Claire McLellan	Acting Policy Lead	s 9(2)(a) [REDACTED] [REDACTED]	<input type="checkbox"/>
Hien Nguyen	Senior Policy Advisor	s 9(2)(a) [REDACTED] [REDACTED]	<input checked="" type="checkbox"/>

27 February 2025

Minister of Finance  
Minister of Revenue

## **Use of money interest rates review 2025**

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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 10.88% while the overpayment rate is currently 4.30%, based on RBNZ figures for August 2024 and applying since 16 January 2025.

### **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 8 May 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. According to RBNZ figures for December 2024, the RBNZ 90-day bank bill rate has fallen by 103 basis points from its rate when last used to adjust UOMI rates in August 2024, which triggers both UOMI rates to be reset.
12. The UOMI underpayment rate should be decreased to **9.89%**, while the UOMI overpayment rate should be decreased to **3.27%**, as follows:
  - 12.1 The RBNZ floating first mortgage new customer housing rate has fallen by 99 basis points since August 2024 (the index at the last time the UOMI rates were set). Accordingly, the underpayment rate should also decrease by 99 basis points, from 10.88% to 9.89%.
  - 12.2 The RBNZ 90-day bank bill rate has fallen by 103 basis points since August 2024. Accordingly, the overpayment rate should also decrease by 103 basis points, from 4.30% to 3.27%.
13. As the 90-day bank bill rate has decreased more than the RBNZ floating first mortgage new customer housing rate, the margin between the UOMI underpayment and overpayment rates will increase from 6.58% to 6.62%.
14. Changing the rates will result in the threshold for future rate changes being reset to a 100 basis points or more movement. A threshold of 20 basis points or more will only apply if there is no further reset within 12 months of the new UOMI rates coming into force in May 2025.
15. While administrative principles guide when officials recommend that UOMI rates be changed to stay aligned with market interest rates, you have discretion on whether to progress these changes. Interest rates have decreased quickly in

recent months. We reported to you in November 2024 recommending the most recent change to UOMI rates, which have been in force since 16 January 2025 (IR2024/429 refers). Depending on the future path of interest rates, it is possible that another change to UOMI rates could be triggered again in the next few months.

## Fiscal impact

16. 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 68.23%.
17. There is an estimated net increase of \$0.9 million for the 2024/25 fiscal year and \$6.1 million per annum for 2025/26 and later years. The net increase of \$0.9 million for the 2024/25 fiscal year comprises the \$5.2 million decrease in revenue and \$6.1 million decrease in impairment expenditure. The net increase of \$6.1 million per annum for 2025/26 and later years comprises the \$35 million decrease in revenue and \$41.1 million decrease in impairment expenditure.
18. 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	(5.200)	(35.000)	(35.000)	(35.000)	(35.000)
Total Operating	5.200	35.000	35.000	35.000	35.000

	\$ 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 debt write-offs	(6.100)	(41.100)	(41.100)	(41.100)	(41.100)
Total Operating	(6.100)	(41.100)	(41.100)	(41.100)	(41.100)

19. As the proposed changes are consistent with the current policy, the fiscal impacts are forecast changes. This means the fiscal impacts flow through to OBEGALx and have no impact on allowances.

## Consultation

20. Inland Revenue has consulted with the Treasury and the New Zealand Customs Service (Customs) on this report. They agree with the recommendations. The Department of the Prime Minister and Cabinet was informed.
21. 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

22. 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 27 March 2025. This would enable the Cabinet Legislation Committee to consider the paper on 3 April 2025.

## Recommended action

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We recommend that you:

*Minister of Finance*

*Minister of Revenue*

- a) **note** that you have discretion on whether to progress changes to use of money interest (UOMI) rates, and that the thresholds for changing UOMI rates could be triggered several times within a short timeframe if interest rates continue to decrease quickly;

Noted

Noted

- b) **agree** to decrease the UOMI underpayment rate to 9.89% (from 10.88%) and to decrease the UOMI overpayment rate to 3.27% (from 4.30%), effective from 8 May 2025;

Agreed/Not agreed

Agreed/Not agreed

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

	\$ millions increase / (decrease)				
	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears
Vote Revenue Minister of Revenue					
Crown Revenue and Receipts:					
Tax revenue	(5.200)	(35.000)	(35.000)	(35.000)	(35.000)
Total Operating	5.200	35.000	35.000	35.000	35.000

Noted

Noted

- d) **approve** the following forecast change in appropriations for Non-Departmental Other Expense as a result of the decision in recommendation (b) above, with a corresponding impact on the operating balance and net core Crown 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 debt write-offs	(6.100)	(41.100)	(41.100)	(41.100)	(41.100)
Total Operating	(6.100)	(41.100)	(41.100)	(41.100)	(41.100)

Approved/Not approved

Approved/Not approved

- e) **note** that the proposed changes are consistent with the current policy so the fiscal impacts are forecast changes, and so will flow through to OBEGALx and have no impact on allowances;

Noted

Noted

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

Agreed/Not agreed

Agreed/Not agreed

- g) **authorise** the lodgement of the attached Cabinet paper with the Cabinet Office by 10am, Thursday 27 March 2025 for consideration by the Cabinet Legislation Committee at its meeting on 3 April 2025.

Authorised/Not authorised

s 9(2)(a)

**Claire McLellan**  
Acting Policy Lead  
Policy

**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

## **TAXATION (USE OF MONEY INTEREST RATES) AMENDMENT REGULATIONS 2025**

### **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 9.89%, while the overpayment UOMI rate is set at 3.27%.

### **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 10.88% and 4.30% respectively. The UOMI rates were last changed by Order in Council with effect from 16 January 2025 and were based on the interest rates for August 2024.

- 9 The RBNZ interest rates for December 2024 indicate that the 90-day bank bill rate has decreased by 103 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 3.27%.
- 10 The floating first mortgage new customer housing rate has also decreased by 99 basis points since the rates were last adjusted. Therefore, I also recommend that the underpayment rate be decreased to 9.89%.

**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 8 May 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 [Legislation Guidelines](#) (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

### Regulatory impact assessment

- 16 The Ministry for Regulation has determined that this proposal is exempt from the requirement to provide a Regulatory Impact Statement on the grounds that the government has limited statutory decision making discretion.

### Climate implications of policy assessment

- 17 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this policy proposal, as the threshold for significance is not met.

### Financial implications

- 18 The proposal to change the UOMI rates, with the effective date of 8 May 2025, is estimated to result in net positive revenue of approximately \$25.3 million over the forecast period. The change is proposed via the 2024/25 Supplementary Estimates.
- 19 The forecast net tax revenue impact of the decreased 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	(5.200)	(35.000)	(35.000)	(35.000)	(35.000)
Total Operating	5.200	35.000	35.000	35.000	35.000

- 20 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 68.23% 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 debt write-offs	(6.100)	(41.100)	(41.100)	(41.100)	(41.100)
Total Operating	(6.100)	(41.100)	(41.100)	(41.100)	(41.100)

## Communications

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

## Proactive release

- 22 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

- 23 The Treasury and the New Zealand Customs Service have been consulted in the preparation of this paper and agree with its recommendations. The Department of the Prime Minister and Cabinet was informed.

## Recommendations

I recommend that the Committee:

- 1 **agree** that the UOMI underpayment rate decrease from 10.88% to 9.89%;
- 2 **agree** that the UOMI overpayment rate decrease from 4.30% to 3.27%;
- 3 **agree** that the Taxation (Use of Money Interest Rates) Amendment Regulations 2025 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 2025 come into force on 8 May 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 core Crown 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	(5.200)	(35.000)	(35.000)	(35.000)	(35.000)
Total Operating	5.200	35.000	35.000	35.000	35.000

- 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 net core Crown 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 debt write-offs	(6.100)	(41.100)	(41.100)	(41.100)	(41.100)
Total Operating	(6.100)	(41.100)	(41.100)	(41.100)	(41.100)

- 7 **agree** that the proposed change to appropriations for 2024/25 above be included in the 2024/25 Supplementary Estimates.
- 8 **authorise** the submission to the Executive Council of the Taxation (Use of Money Interest Rates) Amendment Regulations 2025.

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 2025

**Portfolio**                      **Revenue**

On 3 April 2025, the Cabinet Legislation Committee:

- 1        **agreed** that the use of money interest underpayment rate decrease from 10.88 per cent to 9.89 per cent;
- 2        **agreed** that the use of money interest overpayment rate decrease from 4.30 per cent to 3.27 per cent;
- 3        **noted** that the Taxation (Use of Money Interest Rates) Amendment Regulations 2025 give effect to the rates referred to in paragraphs 1 and 2 above;
- 4        **noted** that the Taxation (Use of Money Interest Rates) Amendment Regulations 2025 come into force on 8 May 2025;
- 5        **noted** the following changes as a result of the decisions above, with a corresponding impact on the operating balance and/or net core Crown debt:

Vote Revenue Minister of Revenue	\$ millions increase / (decrease)				
	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears
Crown Revenue and Receipts: Tax revenue	(5.200)	(35.000)	(35.000)	(35.000)	(35.000)
<b>Total Operating</b>	5.200	35.000	35.000	35.000	35.000

- 6        **approved** the following forecast change in appropriations for Non-Departmental Other Expenses as a result of the decisions above, with a corresponding impact on the operating balance and net core Crown debt:

Vote Revenue Minister of Revenue	\$ millions increase / (decrease)				
	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears
Non-Departmental Other Expenses: Impairment of debt and debt write-offs	(6.100)	(41.100)	(41.100)	(41.100)	(41.100)
<b>Total Operating</b>	(6.100)	(41.100)	(41.100)	(41.100)	(41.100)

- 7 **agreed** that the proposed change to appropriations for 2024/25 above be included in the 2024/25 Supplementary Estimates;
- 8 **authorised** the submission to the Executive Council of the Taxation (Use of Money Interest Rates) Amendment Regulations 2025 [PCO 27213/4.0].

Tom Kelly  
Committee Secretary

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**Present:**

Hon Simeon Brown (Chair)  
Hon Paul Goldsmith  
Hon Brooke van Velden  
Hon Judith Collins KC  
Hon Tama Potaka  
Hon Casey Costello  
Hon Nicole McKee  
Hon Simon Watts  
Hon Chris Penk  
Stuart Smith, MP  
Jamie Arbuckle, MP  
Todd Stephenson, MP

**Officials present from:**

Officials Committee for LEG