

Hon Simon Watts, Minister of Revenue

Information Release

Income Tax (Fringe Benefit Tax, Interest on Loans) 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-0047>

Documents in this information release

| # | Reference | Type | Title | Date |
|---|-----------------|----------------|---|------------------|
| 1 | IR2025/064 | Policy Report | Decrease in FBT prescribed rate of interest | 27 February 2025 |
| 2 | LEG-25-SUB-0047 | Cabinet Paper | Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations 2025 | 3 April 2025 |
| 3 | LEG-25-MIN-0047 | Cabinet Minute | Income Tax (Fringe Benefit Tax, Interest on Loans) 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 – Income Tax \(Fringe Benefit Tax, Interest on Loans\) 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

Accessibility

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Inland Revenue
Te Tari Taake

POLICY

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

| | | | |
|------------------------|------------------|-----------------------|------------|
| Date: | 27 February 2025 | Priority: | Medium |
| Security level: | In Confidence | Report number: | IR2025/064 |

Action sought

| | Action sought | Deadline |
|---------------------|--|-----------------|
| Minister of Finance | Agree to adjust the FBT prescribed rate of interest | 12 March 2025 |
| Minister of Revenue | Agree to adjust the FBT prescribed rate of interest. Agree to change the FBT prescribed rate of interest to a quarterly review. Sign and refer the attached paper to the Cabinet Office for consideration at the LEG meeting on 3 April 2025 | 12 March 2025 |

Contact for telephone discussion (if required)

| Name | Position | Telephone | Suggested first contact |
|-----------------|--------------------|------------------|-------------------------------------|
| Claire McLellan | Acting Policy Lead | s 9(2)(a) | <input type="checkbox"/> |
| Ella Yeatman | Policy Advisor | s 9(2)(a) | <input checked="" type="checkbox"/> |

27 February 2025

Minister of Finance
Minister of Revenue

FBT prescribed rate of interest

Purpose

1. This report seeks your agreement to lower the prescribed interest rate used to calculate fringe benefit tax (FBT) on low-interest loans provided by employers to employees from 8.41% to 7.38%. This change is required to align the rate with current market interest rates. The new rate should apply from the quarter beginning 1 April 2025.
2. This report also seeks your approval for the Parliamentary Counsel Office (PCO) to draft an Order in Council to lower 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 Cabinet Office.
3. Officials are also proposing to change the approach to FBT prescribed interest rate adjustments which are currently reviewed monthly even though the rates can only apply from the start of a quarter. Officials are proposing this be moved to a quarterly review with movements in the following two months until the next quarter being rolled into the next quarterly review.

Background

4. 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.
5. 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.
6. The prescribed interest rate was last changed from 7.89% to 8.41%, effective from the quarter beginning 1 October 2023.

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 7.38% for January 2025 indicates that the current FBT prescribed rate of 8.41% is 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. We recommend that the rate be adjusted to ensure that there is no long-term misalignment.
10. The Reserve Bank series last triggered a FBT prescribed interest rate change in August 2023, however we were unable to progress this due to the election and following government priorities. Now the proposed new FBT prescribed rate is 103 basis points lower than the 2023 October quarter rate of 8.41%.

Cabinet Process

11. When regulations are made declaring the rate of interest applying to employment-related loans, they apply to quarters starting from a date at least 1 month following the date the regulations were made.
12. The Order in Council should be referred to the Cabinet Office by 27 March 2025 so that it can be considered by the Cabinet Legislation Committee on 3 April 2025. PCO has arranged for the Order in Council to be provided directly to the Cabinet Office.
13. A Cabinet paper recommending that Cabinet approve the Order in Council and authorise its submission to the Executive Council is attached.

Proposed change to current approach

14. Officials currently consider the Reserve Bank index each month and recommend a change if the index has changed by 20 basis points or more since the prescribed rate was last set. However, as a new rate can only apply from the beginning of a quarter, and the process from the index being released until the new rate applies takes longer than one month, a monthly review causes issues around the treatment of subsequent movements, and which is the appropriate index to apply. Therefore, we recommend this review is reduced in frequency to a set month each quarter.
15. To provide the most up to date rates for each quarter, we recommend this review be undertaken in the following months:

| Index month | RBNZ release date | Approximate Cabinet date (if required) | Application quarter |
|--------------------|--------------------------|---|----------------------------|
| July | Early August | November | January |
| October | Early November | February | April |
| January | Early February | May | July |
| April | Early May | August | October |

16. Moving to quarterly reviews will provide no discernible impact on reporting to Ministers and will provide greater certainty to people affected by a rate change.

Financial Implications

17. Lowering the FBT prescribed interest rate to 7.38% will decrease the amount of tax revenue over the remainder of the 2024/25 fiscal year by approximately \$0.49 million. The full year impact is estimated to be a decrease in tax revenue of \$1.95 million per year for subsequent years.

| | \$million increase/(decrease) | | | | |
|---|-------------------------------|----------------|----------------|----------------|------------------------------------|
| Vote Revenue Minister of Revenue | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 & out years |
| Crown Revenue and Receipts: | | | | | |
| Fringe Benefit Tax | (0.680) | (2.710) | (2.710) | (2.710) | (2.710) |
| Company Income Tax | 0.190 | 0.760 | 0.760 | 0.760 | 0.760 |
| Total operating | 0.490 | 1.950 | 1.950 | 1.950 | 1.950 |

18. 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 impacts flows through to OBEGAL and have no impact on allowances.

Administrative implications

19. There are no significant administrative implications.

Consultation

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

Next steps

21. 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 FBT 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

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 7.38%, effective from 1 April 2025;

Agreed/Not agreed

Agreed/Not agreed

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

| | \$m increase/(decrease) | | | | |
|---|-------------------------|----------------|----------------|----------------|------------------------------------|
| Vote Revenue Minister of Revenue | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 & out years |
| Crown Revenue and Receipts: | | | | | |
| Tax Revenue | (0.490) | (1.950) | (1.950) | (1.950) | (1.950) |
| Total Operating | 0.490 | 1.950 | 1.950 | 1.950 | 1.950 |

Noted

Noted

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

Noted

Noted

- d) **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

- e) **approve** and **lodge** the attached Cabinet paper to the Cabinet Office by 27 March 2025 for consideration by Cabinet Legislation Committee at its meeting on 3 April 2025; and

N/A


Approved/Not approved

- f) **agree** to change the FBT prescribed rate of interest for low employment-related loans to a quarterly review.

Agree/Not agreed

Agree/Not agreed

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

Cabinet Legislation Committee

INCOME TAX (FRINGE BENEFIT TAX, INTEREST ON LOANS) AMENDMENT REGULATIONS 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 2025 to the Executive Council. The proposal is to decrease the FBT prescribed interest rate for low-interest, employment-related loans from 8.41% to 7.38% 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 October 2023, is 8.41%.
- 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 when regulations to change the prescribed rate of interest are made, they apply to quarters starting at least one month following the date the regulations were made by the Governor-General by Order in Council. 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 have effect from 1 April 2025 – the beginning of the current quarter. No waiver of the 28-day rule is required.

Compliance

- 9 The regulations comply with each of the following, where applicable:
- | | | |
|-----|---|----------------|
| 9.1 | the principles of the Treaty of Waitangi | Not applicable |
| 9.2 | the New Zealand Bill of Rights Act 1990 | Not applicable |
| 9.3 | the Human Rights Act 1993 | Not applicable |
| 9.4 | the principles and guidelines set out in the Privacy Act 1993 | Not applicable |
| 9.5 | relevant international standards and obligations | Not applicable |
| 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.

Impact Analysis

- 12 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 for this proposal.
- 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 7.38% will decrease the amount of tax revenue that will be collected over the remainder of the 2024/25 fiscal year by approximately \$0.49 million. The full year impact is estimated to be a decrease in tax revenue of \$1.95 million per year for subsequent years.

| | \$million increase/(decrease) | | | | |
|-------------------------------------|-------------------------------|--------------|--------------|--------------|------------------------|
| Vote Revenue Minister of Revenue | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 & out years |
| Crown Revenue and Receipts: | | | | | |
| Fringe Benefit Tax | (0.680) | (2.710) | (2.710) | (2.710) | (2.710) |
| Company Income Tax | 0.190 | 0.760 | 0.760 | 0.760 | 0.760 |
| Total operating | 0.490 | 1.950 | 1.950 | 1.950 | 1.950 |

- 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 an article about these changes in its *Tax Information Bulletin*.

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 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 January 2025, the fringe benefit tax prescribed rate of interest should be lowered from 8.41% to 7.38% from the quarter commencing on 1 April 2025;

- 3 **note** the following forecast changes as a result of the decision in recommendation 2, with a corresponding impact on the operating balance and net core Crown debt.

| | \$m increase/(decrease) | | | | |
|---|-------------------------|----------------|----------------|----------------|------------------------------------|
| Vote Revenue Minister of Revenue | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 & out years |
| Crown Revenue and Receipts: | | | | | |
| Tax Revenue | (0.490) | (1.950) | (1.950) | (1.950) | (1.950) |
| Total operating | 0.490 | 1.950 | 1.950 | 1.950 | 1.950 |

- 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 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.

Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations 2025

Portfolio **Revenue**

On 3 April 2025, the Cabinet Legislation Committee:

- 1 **noted** that the Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations 2025 set the prescribed rate of interest for calculating the taxable benefit of low-interest, employment-related loans;
- 2 **agreed** that, consistent with the results of the Reserve Bank's survey for January 2025, the fringe benefit tax prescribed rate of interest should be lowered from 8.41 percent to 7.38 percent from the quarter commencing on 1 April 2025;
- 3 **noted** the following forecast changes as a result of the decision in paragraph 2, with a corresponding impact on the operating balance and net core Crown debt:

| | \$m increase/(decrease) | | | | |
|---|-------------------------|----------------|----------------|----------------|------------------------------------|
| Vote Revenue Minister of Revenue | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 & out years |
| Crown Revenue and Receipts: | | | | | |
| Tax Revenue | (0.490) | (1.950) | (1.950) | (1.950) | (1.950) |
| Total operating | 0.490 | 1.950 | 1.950 | 1.950 | 1.950 |

- 4 **noted** that the fiscal impacts will be treated as a forecast change, and so will have no impact on allowances;
- 5 **authorised** the submission to the Executive Council of the Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations 2025 [PCO 27227/3.0].

Tom Kelly
Committee Secretary

Attendance: (See over)

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