

Hon Simon Watts, Minister of Revenue

Information Release

Income Tax (Deemed Rate of Return on Attributing Interests in Foreign Investment Funds, 2024–25 Income Year) Order 2025

August 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-0131a>

Documents in this information release

#	Reference	Type	Title	Date
01	IR2025/162	Policy Report	Updating the deemed rate of return on attributing interest in FIF and the FBT prescribed rate of interest on loans	10 June 2025
02	LEG-25-SUB-0130	Cabinet Paper	Income Tax (Deemed Rate of Return on Attributing Interests in Foreign Investment Funds, 2024–25 Income Year) Order 2025	17 July 2025
03	LEG-25-MIN-0130	Cabinet Minute	Income Tax (Deemed Rate of Return on Attributing Interests in Foreign Investment Funds, 2024–25 Income Year) Order 2025	17 July 2025

Additional information

The Cabinet paper was considered by the Cabinet Legislation Committee on 17 July 2025 and confirmed by Cabinet on 21 July 2025

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

1. [Income Tax \(Deemed Rate of Return on Attributing Interests in Foreign Investment Funds, 2024–25 Income Year\) Order 2025 \(SL 2025/150\) – New Zealand Legislation](#)

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

9(2)(f)(iv) to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

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POLICY

Tax policy report: **Updating the deemed rate of return on attributing interest in FIF and the FBT prescribed rate of interest on loans**

Date:	10 June 2025	Priority:	Medium
Security level:	In Confidence	Report number:	IR2025/162

Action sought

	Action sought	Deadline
Minister of Finance	Agree to set the deemed rate of return as set out in the report Agree to set the fringe benefit tax prescribed rate as set out in the report	3 July 2025
Minister of Revenue	Agree to set the deemed rate of return as set out in the report Agree to set the fringe benefit tax prescribed rate as set out in the report Agree to circulate the attached draft Cabinet papers for Ministerial consultation	3 July 2025

Contact for telephone discussion (if required)

Name	Position	Telephone
Claire McLellan	Acting Policy Lead	s 9(2)(a) s 9(2)(a)
Lili Tagaloa-Aloniu	Policy Advisor	s 9(2)(a)
Saskia Grant	Policy Advisor	s 9(2)(a)

9 June 2025

Minister of Finance
Minister of Revenue

Updating the deemed rate of return on attributing interest in FIF and the FBT prescribed rate of interest on loans


Purpose

1. This report seeks your approval to set the deemed rate of return on attributing interests in foreign investment funds (FIF) for the 2024–25 income year and to decrease the prescribed interest rate used to calculate fringe benefit tax (FBT) on low-interest loans provided to employees.
2. This report also seeks your approval for the Parliamentary Counsel Office (PCO) to draft Orders in Council to update the FIF and FBT rates. As changes to both rates have become a routine matter, your approval is sufficient for PCO to draft the Orders.
3. Attached are the two Cabinet papers recommending the Orders in Council for updating the FIF and FBT rates be made.

Background

4. The Income Tax Act 2007 (the ITA) requires the deemed rate of return under FIF rules for each income year be set, and permits the making of regulations by to set a prescribed rate of interest for the purpose of calculating FBT on low-interest loans, by Order in Council.

s 9(2)(f)(iv)



FIF deemed rate of return

6. New Zealand's FIF rules tax New Zealand residents on attributed income from non-controlling investments in foreign companies, life insurance policies, and certain superannuation schemes. Since 1 April 2014, most interests in foreign superannuation schemes are taxed on transfer rather than under the FIF rules.
7. The ITA provides different methods to calculate FIF income or losses for tax purposes, one of which is the deemed rate of return method. An investor must use the deemed rate of return where:
 - 7.1 The interest consists of certain non-ordinary shares that have debt characteristics; and
 - 7.2 The comparative value method cannot be used because the end-of-year market value of the interest cannot be determined.

8. Under the deemed rate of return method, income from a FIF is calculated each year by multiplying the opening value of the investment by the rate set annually by Order in Council.
9. An Order in Council is now required to set the deemed rate of return for the 2024-25 income year.

FBT prescribed interest rate

10. 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.
11. The ITA 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.
12. The prescribed interest rate was last changed from 8.41% to 7.38%, effective from the quarter beginning 1 April 2025.

Calculation

FIF deemed rate of return

13. The method for calculating the annual deemed rate of return was established and approved in 1994 (*CAB (94) M 35/3 C(vi)* refers). The calculation involves taking an average of the five-year "risk-free" Government bond rate at the end of each quarter of the income year and adding a risk premium margin of four percentage points. If the last day of a quarter falls on a weekend or statutory holiday, the rate on the next business day is used.
14. Officials recommend that the current method for calculating the deemed rate of return be used again for the 2024-25 income year. It is a simple way of approximating the expected return on foreign equities, incorporating a risk premium of four percentage points above the return on "risk-free" debt such as Government bonds. The method has been used for every income year since 1994. The average of the quarterly five-year Government bond interest rates for the 2024-25 income year is 4.04%. This means that the deemed rate of return for the 2024-25 income year will be 8.04% (4.04% plus four percent). This is a decrease from last year's deemed rate of return, which was 8.63%.

FBT prescribed interest rate

15. 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.
16. The floating first mortgage new customer housing rate of 6.67% for April 2025 indicates that the current FBT prescribed rate of 7.38% is higher than the prevailing market rate.

17. 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 71 basis points lower than the 2025 April quarter rate of 7.38%. We recommend that the rate be adjusted to 6.67% to ensure that there is no long-term misalignment.

Timing and 28-day rule

18. Because the FIF deemed rate of return is based on five-year Government bond rates from across the year for which the rate applies, it must always be calculated after the end of the income year but apply retrospectively from the beginning of that year.
19. This Order in Council will enable taxpayers using the deemed rate of return method to calculate their FIF income for the 2024–25 income year and therefore needs to apply retrospectively from 1 April 2024.
20. Officials recommend that a waiver of the 28-day rule for regulations is sought for this Order in Council. Taxpayers using the deemed rate of return are unable to use the previous year's rate for 2024–25. A new rate being set earlier will mean taxpayers will not face delays of up to 28 days in filing. A waiver would help taxpayers and benefit the Government by avoiding these delays.
21. The attached Cabinet paper is drafted on the basis that a waiver is sought for the Order in Council. This will mean the Order comes into force on 24 July 2025. If you do not agree to recommend a waiver, we will supply you with an updated Cabinet paper.
22. No waiver of the 28-day rule is required for the FBT prescribed interest rate. The Order in Council will apply for the July 2025 quarter.

Cabinet paper and associated materials

23. The draft Cabinet papers and cover sheets for both Orders in Council are attached to this report. These should be signed and referred to the Cabinet Office by 10am, Thursday 10 July 2025, for consideration at the Cabinet Legislation Committee's meeting on 17 July 2025. The PCO will provide copies of both finalised Orders in Council directly to the Cabinet Office.
24. Both rate changes will be published on the Inland Revenue website once the Orders in Council have been made.

Financial Implications

25. Both adjustments would implement a prescribed change in rate, so the fiscal impacts are treated as forecast changes. This means the fiscal impacts flow through to OBEGAL and have no impact on allowances, or the Tax Policy Scorecard.

26. Setting the FIF deemed rate of return will decrease the amount of tax revenue over the 2024-25 fiscal year by approximately \$0.03 million per year and subsequent years:

	\$ million increase / (decrease)			
Vote Revenue Minister of Revenue	2025/26	2026/27	2027/28	2028/29 & outyears
Tax Revenue: Income tax	(0.030)	(0.030)	(0.030)	(0.030)
Total Operating	0.030	0.030	0.030	0.030

27. Lowering the FBT prescribed interest rate to 6.67% will decrease the amount of tax revenue by approximately \$1.35 million over the 2025/26 fiscal year and subsequent years:

	\$million increase/(decrease)			
Vote Revenue Minister of Revenue	2025/26	2026/27	2027/28	2028/29 & out years
Crown Revenue and receipts:				
Fringe Benefit Tax	(1.870)	(1.870)	(1.870)	(1.870)
Company Income Tax	0.520	0.520	0.520	0.520
Net tax revenue	(1.350)	(1.350)	(1.350)	(1.350)
Total operating balance	1.350	1.350	1.350	1.350

Administrative implications

28. There are no significant administrative implications for either rate change.

Consultation

29. The Treasury was consulted on this report and Cabinet papers.

Recommended action

We recommend that you:

Minister of Finance

Minister of Revenue

1. **agree** for the Income Tax (Deemed rate of Return on Attributing Interests in Foreign Investment Funds, 2024-25 Income Year) Order 2025 to set the deemed rate of return for the 2024-25 income year at 8.04%;

Agreed/Not agreed

Agreed/Not agreed

2. **agree** for the FIF deemed rate of return to apply from 1 April 2024 and have a commencement date of 24 July 2025, requiring a waiver of the 28-day rule to be agreed to by Cabinet;

Agreed/Not agreed

Agreed/Not agreed

3. **note** the following changes as a result of the decision on recommendation 1 above, with the corresponding impact on the operating balance and/or net core Crown debt;

	\$ million increase / (decrease)			
Vote Revenue Minister of Revenue	2025/26	2026/27	2027/28	2028/29 & outyears
Tax Revenue: Income tax	(0.030)	(0.030)	(0.030)	(0.030)
Total Operating	0.030	0.030	0.030	0.030

Noted

Noted

4. **agree** for the Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations (No 2) 2025 to set the FBT prescribed rate of interest for low-interest employment-related loans to 6.67%, applying from 1 July 2025;

Agreed/Not agreed

Agreed/Not agreed

5. **note** the following changes as a result of the decision on recommendation 4 above, with the corresponding impact on the operating balance and/or net core Crown debt;

	\$ million increase/(decrease)			
Vote Revenue Minister of Revenue	2025/26	2026/27	2027/28	2028/29 & out years
Crown Revenue and receipts:				
Fringe Benefit Tax	(1.870)	(1.870)	(1.870)	(1.870)
Company Income Tax	0.520	0.520	0.520	0.520
Net tax revenue	(1.350)	(1.350)	(1.350)	(1.350)
Total operating balance	1.350	1.350	1.350	1.350

Noted

Noted

6. **note** that the fiscal impacts for both changes will be treated as a forecast change, and so will have no impact on allowances;

Noted

Noted

7. **direct** officials to provide drafting instructions to the Parliamentary Counsel Office;

Directed/Not directed


8. **Agree** to circulate the attached draft Cabinet papers for Ministerial consultation;

Agreed/Not agreed

9. **agree** to the release of the Cabinet paper, associated minutes, and key advice papers within 30 working days of Cabinet making final decisions.

Agreed/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

Chair, Cabinet Legislation Committee

INCOME TAX (DEEMED RATE OF RETURN ON ATTRIBUTING INTERESTS IN FOREIGN INVESTMENT FUNDS, 2024-25 INCOME YEAR) ORDER 2025**Proposal**

- 1 This paper proposes that Cabinet Legislation Committee authorise the submission to the Executive Council of the attached Order in Council, which will set the deemed rate of return on attributing interests in foreign investment funds at 8.04% for the 2024–25 income year.

Policy

- 2 New Zealand's foreign investment fund (FIF) rules tax New Zealand residents on income from certain foreign investments. There are several methods for calculating a taxpayer's income or loss from these investments, as set out in legislation. One of these is the deemed rate of return method.
- 3 The deemed rate of return method is used to calculate FIF income or loss from non-ordinary shares with debt-like properties, such as shares that guarantee a return. The method can only be used if the market value of the foreign investment cannot be determined at the end of the income year. Under the deemed rate of return method, income from a FIF is calculated each year by multiplying the opening book value of the investment by a deemed rate set annually by Order in Council.
- 4 The method for calculating the annual deemed rate of return was established and approved in 1994 (CAB Min (94) 35/3 C(vi) refers). The calculation takes an average of the five-year "risk-free" Government bond rates at the end of each quarter of the income year and then adds a risk premium margin of four percentage points. The current method is a suitable way of approximating the expected return on foreign equities and has been used for every income year since 1994.

Timing and 28-day rule

- 5 The new deemed rate of return should come into force as soon as practicable to allow taxpayers using this rate to file their tax returns as soon as they can. I therefore recommend that the new rate comes into force on 25 July 2025
- 6 To ensure a commencement date of 25 July 2025. I recommend that the 28-day rule be waived for the coming into force of this Order. This will ensure that taxpayers using the deemed rate of return method for calculating their income are able to promptly file their tax return using the correct rate for the 2024–25 income year.
- 7 The Income Tax Act 2007 requires a taxpayer using the deemed rate of return method to use the rate set by Order in Council for the relevant income year. If a taxpayer wants to file a return before that rate has been set, there would be a gap in the legislation that would result in uncertainty as to how they could comply. If a waiver is not agreed to, then taxpayers that use the deemed rate of return method cannot file a return until the 28-day period has been satisfied.
- 8 It is of no benefit to taxpayers nor the Government to require taxpayers using the deemed rate of return method to wait an extra 28 days to file their tax return. This would be a source of frustration for taxpayers who want to file their tax returns quickly but are unable to do so. Therefore, I recommend that the 28-day rule be waived.

Compliance

- 9 The order complies with each of the following:
 - 9.1 the principles of the Treaty of Waitangi;
 - 9.2 the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993;
 - 9.3 the principles and guidelines set out in the Privacy Act 2020;
 - 9.4 relevant international standards and obligations; and
 - 9.5 the Legislation Guidelines (2021 edition), which are maintained by the Legislation Design and Advisory Committee.

Legislative Implications

- 10 The proposal of this Cabinet paper is that the attached Order in Council be submitted to the Executive Council.

Regulations Review Committee

- 11 There are no anticipated grounds for the Regulations Review Committee to draw the Order in Council to the attention of the House.

Certification by Parliamentary Counsel

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

Impact Analysis

- 13 A Regulatory Impact Analysis is not required because no policy decision is being sought. The deemed rate of return has been calculated in accordance with a formula that was approved by Cabinet in 1994 (CAB Min (94) 35/3 C(vi) refers).

Financial implications

- 14 Lowering the FIF deemed rate of return to 8.04% will decrease the amount of tax revenue by approximately \$0.03 million over the 2025/26 fiscal year and subsequent years.

	\$ million increase / (decrease)			
Vote Revenue Minister of Revenue	2025/26	2026/27	2027/28	2028/29 & outyears
Tax Revenue: Income tax	(0.030)	(0.030)	(0.030)	(0.030)
Total Operating	0.030	0.030	0.030	0.030

Publicity

- 15 Once the Order in Council is made, Inland Revenue will publish the new rate on their website.

Proactive release

- 16 I propose to proactively release this Cabinet paper, associated minutes, and key advice papers within 30 working days of Cabinet making final decisions, subject to minor redactions under the Official Information Act 1982.

Consultation

- 17 The Treasury has been consulted in the preparation of this paper and agrees with its recommendations.

Recommendations

I recommend that the Cabinet Legislation Committee:

- 1 agree that the attached Order in Council should set the deemed rate of return on attributing interests in foreign investment funds at 8.04% for the 2024–25 income year;
- 2 note that a waiver of the 28-day rule is sought:
 - 2.1 so that the regulations can come into force on 25 July 2025;
 - 2.2 as the data to calculate this rate only became available in April 2025 so it was not possible to set the rate before the 2024–25 year ended;
 - 2.3 as it is of no benefit to taxpayers or the Government to require taxpayers using the rate to wait an extra 28 days to be able to file their tax return;
- 3 agree to waive the 28-day rule so that the regulations can come into force on 25 July 2025;
- 4 authorise the submission to the Executive Council of the Income Tax (Deemed Rate of Return on Attributing Interests in Foreign Investment Funds, 2024–25 Income Year) Order 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 (Deemed Rate of Return on Attributing Interests in Foreign Investment Funds, 2024–25 Income Year) Order 2025

Portfolio **Revenue**

On 17 July 2025, the Cabinet Legislation Committee:

- 1 **agreed** that the Income Tax (Deemed Rate of Return on Attributing Interests in Foreign Investment Funds, 2024–25 Income Year) Order 2025 (the Order) should set the deemed rate of return on attributing interests in foreign investment funds at 8.04 per cent for the 2024–25 income year;
- 2 **noted** that a waiver of the 28-day rule is sought:
 - 2.1 so that the Order can come into force on 25 July 2025;
 - 2.2 as the data to calculate this rate only became available in April 2025 so it was not possible to set the rate before the 2024/25 year ended;
 - 2.3 as it is of no benefit to taxpayers or the Government to require taxpayers using the rate to wait an extra 28 days to be able to file their tax return;
- 3 **agreed** to waive the 28-day rule so that the Order can come into force on 25 July 2025;
- 4 **authorised** the submission to the Executive Council of the Income Tax (Deemed Rate of Return on Attributing Interests in Foreign Investment Funds, 2024–25 Income Year) Order 2025 [PCO 28134/5.0].

Tom Kelly
Committee Secretary

Present:

Rt Hon Winston Peters
Hon Chris Bishop (Chair)
Hon Mark Mitchell
Hon Brooke van Velden
Hon Nicole McKee
Hon Casey Costello
Hon Chris Penk
Hon Penny Simmonds
Hon James Meager
Stuart Smith, MP
Todd Stephenson, MP
Jamie Arbuckle, MP

Officials present from:

Officials Committee for LEG