

Hon Simon Watts, Minister of Revenue

Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations 2026 – Information release

March 2026

List of documents included in this proactive release

| # | Reference | Type | Title | Date |
|----|-----------------|----------------|---|------------------|
| 01 | IR2026/034 | Policy report | Decrease in FBT prescribed rate of interest for January 2026 quarter | 3 February 2026 |
| 02 | LEG-26-SUB-0029 | Cabinet paper | Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations 2026 | 19 February 2026 |
| 03 | CAB-26-MIN-0053 | Cabinet minute | Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations 2026 | 19 February 2026 |
| 04 | LEG-26-MIN-0029 | Cabinet minute | Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations 2026 | 19 February 2026 |

Additional information

The Cabinet paper was considered by the Cabinet Legislation Committee on 19 February 2026 and confirmed by Cabinet on 23 February 2026.

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

- [Income Tax \(Fringe Benefit Tax, Interest on Loans\) Regulations 1995 \(SR 1995/41\) \(as at 27 February 2026\) – New Zealand Legislation](#) (SR 1995/41)

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

Availability

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Tax policy report



Inland Revenue
Te Tari Taake

Decrease in FBT prescribed rate of interest for January 2026 quarter

| | | | |
|-----------------------|-----------------|----------------------|------------|
| Date | 3 February 2026 | Priority | High |
| Security level | In Confidence | Report number | IR2026/034 |

| Action sought | | Deadline |
|----------------------|--|------------------|
| Minister of Finance | Agree to adjust the FBT prescribed rate of interest | 11 February 2026 |
| Minister of Revenue | Agree to adjust the FBT prescribed rate of interest Agree to undertake Ministerial consultation on the attached Cabinet paper | 5 February 2026 |

| Purpose |
|--|
| <p>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 6.29% to 5.77%. 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 January 2026.</p> <p>This report also seeks your approval for the Parliamentary Counsel Office (PCO) to draft an Order in Council to adjust the rate. Changes to the FBT prescribed interest rate have become a routine matter, so your approval is sufficient for PCO to draft the Order. PCO can provide the Order in Council directly to the Cabinet Office.</p> |

| Contact for phone discussion, if required | | | |
|--|--------------------|---------------------|-------------------------------------|
| Name | Position | Phone number | First contact |
| Claire McLellan | Acting Policy Lead | s 9(2)(a) | <input type="checkbox"/> |
| Lili Tagaloa-Aloni | Policy Advisor | s 9(2)(a) | <input checked="" type="checkbox"/> |

Decrease in FBT prescribed rate of interest for January 2026 quarter

Background

- 1 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.
- 2 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.
- 3 The prescribed interest rate was last changed from 6.67% to 6.29% effective from the quarter beginning 1 October 2025. As a matter of practice, the Government changes the prescribed rate when movements in the Reserve Bank of New Zealand’s first home mortgage rate changes by more than 20 basis points.
- 4 The process of adjusting the prescribed rate will no longer involve making an Order in Council after enactment of the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill, expected to be in March 2026. Thereafter, the Commissioner of Inland Revenue will hold a direct power to make determinations amending the rate.

Appropriate prescribed rate determination

- 5 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.
- 6 The floating first mortgage new customer housing rate of 5.77% for December 2025 indicates that the current FBT prescribed rate of 6.29% is materially higher than the prevailing market rate.
- 7 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 52 basis points lower than the 2025 October quarter rate of 6.29%. We recommend that the rate be adjusted to ensure that there is no long-term misalignment.

Timing

- 8 When 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, to apply for the quarter commencing 1 January 2026, an Order needs to be made by 28 February 2026.
- 9 A Cabinet paper recommending that Cabinet approve the Order in Council and authorise its submission to the Executive Council is attached.

Financial implications

- 10 Lowering the FBT prescribed interest rate to 5.77% will decrease the amount of tax revenue over the 2025/26 fiscal year by approximately \$0.49 million. This comprises a \$0.68 million decrease in FBT offset by a \$0.19 million increase in company tax (as the rate change means businesses claim smaller deductions on FBT paid).
- 11 The full-year impact is estimated to be a decrease in tax revenue of \$0.99 million per year for subsequent years. This comprises a \$1.37 million decrease in FBT offset by a \$0.38 million increase in company tax.

| Vote Revenue | \$m - increase/(decrease) | | | | |
|-----------------------------|---------------------------|--------------|--------------|--------------|--------------------|
| | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 & Outyears |
| Crown Revenue and Receipts: | | | | | |
| Tax Revenue – FBT | (0.680) | (1.370) | (1.370) | (1.370) | (1.370) |
| Tax Revenue – Company tax | 0.190 | 0.380 | 0.380 | 0.380 | 0.380 |
| Total revenue | (0.490) | (0.990) | (0.990) | (0.990) | (0.990) |
| Total Operating | 0.490 | 0.990 | 0.990 | 0.990 | 0.990 |

- 12 These fiscal impacts are treated as forecast changes. This means the fiscal impacts flow through to OBEGAL and will have no impact on allowances.

Administrative impact

- 13 There are no significant administrative implications.

Consultation

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

Next steps

- 15 The Cabinet paper to take to the Cabinet Legislation Committee recommending approval of the Order in Council and the authorisation of its submission to the Executive Council is attached. If you agree to support adjustment of the FBT rates, the paper should be lodged with the Cabinet Office by 10am, Thursday 12 February 2026. This would enable the Cabinet Legislation Committee to consider the paper on 19 February 2026 and for the Order in Council to be made at Cabinet on 23 February 2026.
- 16 PCO will arrange for the Order in Council to be provided directly to the Cabinet Office.
- 17 The rate changes will be published on the Inland Revenue website once the Order in Council has been made.

Recommendations

We recommend that you:

1. **Agree** the FBT prescribed rate of interest for low-interest employment related loans should be lowered to 5.77%, effective from 1 January 2026.

Agree / Disagree

Minister of Finance

Agree / Disagree

Minister of Revenue

Financial Recommendations

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

| Vote Revenue Minister of Revenue | \$m - increase/(decrease) | | | | |
|-------------------------------------|---------------------------|--------------|--------------|--------------|--------------------|
| | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 & Outyears |
| Crown Revenue and Receipts: | | | | | |
| Net tax revenue | (0.490) | (0.990) | (0.990) | (0.990) | (0.990) |
| Total Operating | 0.490 | 0.990 | 0.990 | 0.990 | 0.990 |

3. **Note** the fiscal impact will be treated as a forecast change, so will have no impact on allowances.

4. **Agree** the Parliamentary Counsel Office should be instructed to draft an Order in Council to implement the proposed rate change.

Agree / Disagree
Minister of Finance

Agree / Disagree
Minister of Revenue

5. **Agree** to undertake Ministerial consultation on the attached Cabinet paper.

N/A
Minister of Finance

Agree / Disagree
Minister of Revenue

s 9(2)(a)

Claire McLellan

Acting Policy Lead

Policy | Inland Revenue

3 February 2026

Hon Nicola Willis

Minister of Finance

/ /2026

Hon Simon Watts

Minister of Revenue

/ /2026

In Confidence

Office of the Minister of Revenue
Chair, Cabinet Legislation Committee

INCOME TAX (FRINGE BENEFIT TAX, INTEREST ON LOANS) AMENDMENT REGULATIONS 2026

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 2026 to the Executive Council. The proposal is to decrease the fringe benefit tax (FBT) prescribed interest rate for low-interest employment-related loans from 6.29% to 5.77% in line with a decrease in market interest rates.

Relation to Government priorities

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

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 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 2025, is 6.29%.
- 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.

Financial Implications

- 7 Lowering the FBT prescribed interest rate to 5.77% will decrease the amount of tax revenue over the 2025/26 fiscal year by approximately \$0.49 million. For subsequent years, the impact is estimated to be a decrease in tax revenue of \$0.99 million per year.
- 8 The decrease in FBT collected each year is offset by an increase in company tax because the rate decrease would mean businesses claim smaller deductions on FBT paid.

| | \$m - increase/(decrease) | | | | |
|-----------------------------|---------------------------|----------------|----------------|----------------|-------------------------------|
| Vote Revenue | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 & Outyears |
| Crown Revenue and Receipts: | | | | | |
| Tax Revenue – FBT | (0.680) | (1.370) | (1.370) | (1.370) | (1.370) |
| Tax Revenue – Company tax | 0.190 | 0.380 | 0.380 | 0.380 | 0.380 |
| Total revenue | (0.490) | (0.990) | (0.990) | (0.990) | (0.990) |
| Total Operating | 0.490 | 0.990 | 0.990 | 0.990 | 0.990 |

- 9 These fiscal impacts are treated as forecast changes. This means the fiscal impacts flow through to OBEGAL and have no impact on allowances.

Legislative Implications

- 10 The regulations have been certified by the Parliamentary Counsel Office as being in order for submission to Cabinet, if submitted no later than 28 February 2026.

Impact Analysis

- 11 The Ministry for Regulation has determined that this proposal is exempt from providing a Regulatory Impact Statement on the grounds it has no or only minor economic, social or environmental impacts.

Use of external resources

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

Consultation

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

Communications

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

Proactive Release

- 15 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.

Recommendations

I recommend that the Cabinet Legislation Committee:

- 1 **Note** the Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations 2026 set the prescribed rate of interest for calculating the taxable benefit of low-interest, employment-related loans.
- 2 **Agree**, consistent with the results of the Reserve Bank's survey for December 2025, the fringe benefit tax prescribed rate of interest should be lowered from 6.29% to 5.77% from the quarter commencing 1 January 2026.
- 3 **Note** the following changes as a result of the decision in recommendation 2, with a 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 | 2029/30 & Outyears |
| Crown Revenue and Receipts: | | | | | |
| Net tax revenue | (0.490) | (0.990) | (0.990) | (0.990) | (0.990) |
| Total Operating | 0.490 | 0.990 | 0.990 | 0.990 | 0.990 |

- 4 **Note** that the fiscal impacts will be treated as a forecast change, 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 2026.

Authorised for lodgement

Hon Simon Watts

Minister for 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 20 February 2026

On 23 February 2026, Cabinet made the following decisions on the work of the Cabinet Legislation Committee for the period ended 20 February 2026:

| | | |
|--------------|------------|------------|
| Not in scope | [Redacted] | [Redacted] |
| [Redacted] | [Redacted] | [Redacted] |
| [Redacted] | [Redacted] | [Redacted] |
| [Redacted] | [Redacted] | [Redacted] |
| [Redacted] | [Redacted] | [Redacted] |
| [Redacted] | [Redacted] | [Redacted] |
| [Redacted] | [Redacted] | [Redacted] |
| [Redacted] | [Redacted] | [Redacted] |
| [Redacted] | [Redacted] | [Redacted] |
| [Redacted] | [Redacted] | [Redacted] |
| [Redacted] | [Redacted] | [Redacted] |

LEG-26-MIN-0029

Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations 2026
Portfolio: Revenue

CONFIRMED

Not in scope

[Redacted]

[Redacted]

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[Redacted]

Rachel Hayward
Secretary of the Cabinet



Cabinet Legislation Committee

Minute of Decision

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Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations 2026

Portfolio **Revenue**

On 19 February 2026, the Cabinet Legislation Committee:

- 1 **noted** the Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations 2026 set the prescribed rate of interest for calculating the taxable benefit of low-interest, employment-related loans;
- 2 **agreed**, consistent with the results of the Reserve Bank's survey for December 2025, the fringe benefit tax prescribed rate of interest should be lowered from 6.29% to 5.77% from the quarter commencing 1 January 2026;
- 3 **noted** the following changes as a result of the decision in paragraph 2, with a corresponding impact on the operating balance and/or net core Crown debt:

| Vote Revenue Minister of Revenue | \$m - increase/(decrease) | | | | |
|-------------------------------------|---------------------------|--------------|--------------|--------------|-----------------------|
| | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 & Outyears |
| Crown Revenue and Receipts: | | | | | |
| Net tax revenue | (0.490) | (0.990) | (0.990) | (0.990) | (0.990) |
| Total Operating | 0.490 | 0.990 | 0.990 | 0.990 | 0.990 |

- 4 **noted** that the fiscal impacts will be treated as a forecast change, 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 2026 [PCO 28778/5.0].

Sam Moffett
Committee Secretary

Attendance (see over)

Present:

Hon David Seymour (Chair)
Rt Hon Winston Peters
Hon Paul Goldsmith
Hon Judith Collins KC
Hon Tama Potaka
Hon Brooke van Velden
Hon Nicole McKee
Hon Casey Costello
Hon Scott Simpson
Hon Chris Penk
Stuart Smith MP
Jamie Arbuckle MP

Officials present from:

Officials Committee for LEG