

NEW LEGISLATION > ORDER IN COUNCIL > SPECIAL REPORT

Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations (No 2) 2022

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This special report provides early information on changes to the FBT prescribed rate of interest on employment-related loans in line with recent changes in market interest rates ahead of an upcoming edition of the *Tax Information Bulletin*.

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Sections RA 21(3) and (4) of the Income Tax Act 2007

Order

The Taxation (Fringe Benefit Tax, Interest on Loans) Amendment Regulations (No 2) 2022 was made on 21 November 2022. The Order changes the prescribed rate of interest for calculating fringe benefit tax on low-interest loans provided by an employer to an employee.

The fringe benefit tax (FBT) prescribed rate of interest for low-interest employment-related loans has been increased from 4.78% to 6.71 % in line with recent changes in market interest rates.

Background

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 they have provided to their employees.

Section RA 21(3) of the Income Tax Act 2007 permits the making of regulations by Order in Council to set a prescribed rate of interest for calculating FBT on low-interest loans. Once a rate is set, it remains the prescribed rate until changed by a subsequent Order in Council.

By administrative convention, the FBT prescribed rate of interest is based on the 'floating first mortgage new customer housing rate' series published by the Reserve Bank (RBNZ) each month. It is updated when there has been an increase or decrease in the RBNZ rate of 20 or more basis points since the FBT rate was last set. The RBNZ rate for August 2022 was 6.71%. This is up from 4.78%, the rate for January 2022, which the most recent FBT prescribed interest rate was based off. The FBT prescribed rate of interest is being lifted accordingly.

Effective date

The new prescribed rate of 6.71% applies for the quarter beginning 1 January 2023 and subsequent quarters.

Further information

The regulations updating the prescribed rate of interest can be found at:

<https://www.legislation.govt.nz/regulation/public/2022/0306/latest/whole.html>

About this document

Special reports are published shortly after new legislation is enacted or Orders in Council are made to help affected taxpayers and their advisors understand the consequences of the changes. These are published in advance of an article in the *Tax Information Bulletin*.