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Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations 2020

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This Order in Council reduces the fringe benefit tax (FBT) prescribed rate of interest for low-interest employment-related loans from 5.26% to 4.50%.

START DATE
1 July 2020

Decrease in FBT prescribed rate of interest

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

The fringe benefit tax (FBT) prescribed rate of interest for low-interest employment-related loans has been reduced from 5.26% to 4.50%.

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 that 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 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.

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, and 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 March 2020 was 4.50%, down from 5.26%, which had been the rate since August 2019. The FBT prescribed rate of interest is being lowered accordingly.

Application date

The new prescribed rate of 4.50% applies to the quarter beginning 1 July 2020, and subsequent quarters.

References

Legislative references

Income Tax Act 2007: sections RA 21(3) and (4).

About this document

New legislation articles provide an explanation of the changes made in recently enacted tax-related legislation including acts, general and remedial amendments, and Orders in Council.