

TAXATION (USE OF MONEY INTEREST RATES SETTING PROCESS) AMENDMENT REGULATIONS 2020

Taxation (Use of Money Interest Rates Setting Process) Regulation 1997

An Order in Council has been made to ensure that the Commissioner's use of money interest paying rate cannot be set at a negative rate.

The Taxation (Use of Money Interest Rates Setting Process) Regulation 1997 outlines the methodology to be used when setting the use of money interest rates. This has been amended to specify that when setting the Commissioner's paying rate, that it must be set at the higher of:

- The 90-day bank bill rate minus 100 basis points; or
- 0%

In effect, this prevents it being set at a negative rate.

Background

The use of money interest ("UOMI") rates are a cornerstone of the tax compliance system in New Zealand. UOMI interest is paid by the taxpayer where tax has been underpaid and by the Commissioner where tax has been overpaid. The rate of UOMI payable for overpaid tax is referred to as the Commissioner's paying rate. The legislated twin objectives of the UOMI provisions are to:

- fairly compensate the party (either the Crown or the taxpayer) that does not have the use of its money; and
- encourage taxpayers to pay the right amount of tax at the right time.

The method used for setting the overpayment rate is outlined in the Taxation (Use of Money Interest Rates Setting Process) Regulation 1997. This method uses the Reserve Bank of New Zealand ("RBNZ") 90-day bank bill rate minus 100 basis points (1%).

When the UOMI rates were last set, at the start of July this year, the UOMI for the Commissioner's paying rate was reduced to 0.81%, as the 90-day bank bill rate was 1.81%. However, since then, the RBNZ has decreased the Official Cash Rate ("OCR") further to 1.00. This has caused the 90-day bank bill rate to drop to 1.27% for the month of January 2019.

Key features

The measure prevents the Commissioner's use of money interest paying rate being set at a negative rate.

Application date(s)

The Order in Council came into force on 9 April 2020.