

[RULINGS](#) > [PRODUCT](#)

Bank of New Zealand

Issued: 13 December 2022

BR Prd 22/14

BNZ offers a product (TotalMoney) which allows customers to group or aggregate accounts for the purpose of either “pooling” or “offsetting” the account balances.

START DATE – END DATE

1/04/2022 – 31/03/2027

(THIS TITLE PAGE DOES NOT FORM PART OF THE RULING.)

Product Ruling – BR Prd 22/14

This is a product ruling made under s 91F of the Tax Administration Act 1994.

Name of person who applied for the Ruling

This Ruling has been applied for by Bank of New Zealand (BNZ).

Taxation Laws

All legislative references are to the Income Tax Act 2007 unless otherwise stated.

This Ruling applies in respect of:

- ss BG 1, CC 7, EW 15, EW 31, RE 1, RF 1; and;
- ss 86F and 86I of the Stamp and Cheque Duties Act 1971 (SCDA).

The Arrangement to which this Ruling applies

The Arrangement is a product (TotalMoney) that BNZ offers to its customers. These customers may only be individuals, companies, or trusts.

TotalMoney involves the creation of specific accounts that must be in a group of accounts, and the facility for customers to elect to group up to 50 of these specific accounts into one or more groups to either “pool” or “offset” the account balances.

“Pooling” involves the aggregation of account credit balances to determine the tiered interest rate that will apply to the calculation and crediting of interest to each account balance. “Offsetting” involves the aggregation of account balances to calculate the amount of interest debited to a lending facility account balance.

The Arrangement is set out in the documents listed below, copies of which were received by the Tax Counsel Office, Inland Revenue, on 29 June 2022 and 1 November 2022:

- Terms and Conditions for your Bank of New Zealand TotalMoney Account for Personal and Sole Trader Customers;
- Terms and Conditions for your Bank of New Zealand TotalMoney Account for Companies and Trusts;
- Bank of New Zealand Home Loan Facility Master Agreement;
- Letter of Advice – TotalMoney Home Loan;

- Facility Document – TotalMoney Business Term Loan; and
- BNZ Business Lending Master Terms and Conditions.

While the Letter of Advice will be personalised for each customer's circumstances, contracts under the Arrangement are between arms-length parties operating on standard contractual terms.

Changes will be made to some aspects of the Arrangement from 31 October 2022 to:

- remove the credit interest paid on credit balances for existing and new TotalMoney accounts;
- remove the fees for existing and new accounts for personal TotalMoney customers;
- remove TotalMoney "pooling"; and
- retain the fees for existing TotalMoney for Business accounts, with the potential to remove this fee in the future.

The Terms and Conditions for your Bank of New Zealand TotalMoney Account for Personal and Sole Trader Customers and the Terms and Conditions for your Bank of New Zealand TotalMoney Account for Companies and Trusts will change from 31 October 2022 to address the removal of "pooling" and interest paid on credit balances under "pooling" and/or "offsetting" and to set out the changes in fees.

These changes are set out in BNZ's website (Public Notices – BNZ) under *Changes to TotalMoney terms and conditions (effective 31 October 2022)*.

Further details of the Arrangement are set out in the paragraphs below.

- 1) TotalMoney is a package of accounts and loans that BNZ offers to its customers. These customers may only be individuals, companies, or trusts.
- 2) Customers in general have a range of accounts with BNZ, including transaction accounts, savings accounts, and various loan accounts. Loan accounts may be only table, non-table, tailored, principal and interest, interest only, fixed or floating home loan accounts, or business loan accounts.
- 3) TotalMoney allows customers to group or aggregate these accounts for the purposes of either "pooling" or "offsetting" the account balances.

Primary features of TotalMoney

- 4) The primary features of TotalMoney are the "pooling" and "offsetting" features. These features operate in the manner described below.

Pooling until 31 October 2022

- a) The pooling aspect of TotalMoney operates when several transaction accounts with credit balances exist. Interest on these credit balance accounts is calculated and paid based on the cumulative credit balance of all transaction accounts in the group. Interest-bearing accounts usually attract interest based on interest rate brackets that apply to the balance of each relevant individual account.
- b) The cumulative credit balance is calculated so BNZ can ascertain the relevant interest rate tier applicable to the relevant accounts. The separate funds are not actually transferred to one account before the interest is calculated. BNZ calculates interest at the applicable interest rate tier that applies to the accumulated balance.

Offsetting

- a) With the offset feature of TotalMoney, interest on a lending facility or facilities within the group is calculated and paid by the customer on the difference between the lending facility balances and the credit balances of transaction accounts in the group. Under the terms and conditions agreed between BNZ and its customers for TotalMoney, BNZ pays no interest on the credit balances that are "offset" against the lending facility.
- b) The "offsetting" is only to calculate the balance of the lending facility or facilities on which interest is payable, or, where the credit balances of transaction accounts exceed the balance of the lending facility or facilities in the group of which the credit balances are "offset" against, the balance of the excess credit balances on which interest is receivable. There is no actual transfer of funds, no set-off or netting of funds together in an account, and no transfer of any interest in or entitlement to funds.

Pooling and interest on credit balances from 31 October 2022

- a) TotalMoney for Business lending is no longer available to new business customers. Existing TotalMoney for Business customers can remain in a group but no interest will be paid on the credit balances of the group accounts or the "offsetting" accounts.
- b) While grouping TotalMoney transactional accounts will still be available, there will be no interest paid on the credit balances of the group accounts or the "offsetting" accounts.

- c) TotalMoney transactional accounts without TotalMoney home loans will no longer be available to new customers from 31 October 2022.
 - d) BNZ will review all existing pooling customers and will be encouraging them to transfer to other products that are more suitable for savings accounts and their needs.
- 5) Every transaction account in a TotalMoney group is automatically set to "pool" or "offset". If a customer has any lending facilities within their TotalMoney group, the customer's transaction accounts with credit balances are "offset" against their lending facilities. Interest is payable by the customer if the balance of their lending facilities exceeds the balance of their transaction accounts with credit balances, and until 31 October 2022, interest is payable by BNZ if a customer's transaction accounts with credit balances exceeds the balance of their lending facilities. Where the customer has no loan account(s), a customer's TotalMoney accounts will automatically group.
- 6) TotalMoney does not provide a facility for other accounts. Instead it involves creating a specific type of account. To participate in TotalMoney, a customer must open specific TotalMoney accounts that are particular to the TotalMoney product, or a customer may convert an existing BNZ account to a new TotalMoney account. However, the customer must agree that the existing terms and conditions that apply to those accounts cease to apply, and are replaced by the TotalMoney Terms and Conditions.
- 7) For new TotalMoney accounts, the account will be set to "offset".

Pooling – further detail

- 8) Until the changes are made to the credit interest aspect of TotalMoney from 31 October 2022, BNZ has a contractual obligation to pay interest if either a customer's transaction accounts with credit balances exceeds their lending facilities within a TotalMoney group, or a customer only has transaction accounts with credit balances (and no lending facilities) within a TotalMoney group. The interest payable is based on the applicable interest rate tier that applies based on the total credit balance being "pooled" or "offset" against any lending facilities in the TotalMoney group. Following usual business practice, BNZ makes a separate determination for withholding tax on each interest payment made to each account.
- 9) The benefit of the "pooling" feature for customers is that they can earn more interest by combining smaller balances and reaching higher interest-rate tiers and still maintain their money in separate accounts for separate purposes. The customer may consider this an advantageous way to manage their money.

- 10) Account owners have full deposit and withdrawal access to their transaction accounts. Overdraft facilities may be available in relation to these accounts. However, any overdraft balance is ignored for "pooling" purposes. BNZ charges debit interest on the overdrawn balance of any account. The overdrawn balance does not reduce the "pooled" balance of the credit balance accounts when BNZ is calculating interest for those accounts.
- 11) BNZ will be removing "pooling" and the payment of interest on credit balances from 31 October 2022. This is as part of the replacement of BNZ's core banking systems and is intended to simplify products to customers. As part of its plans for the future, BNZ will be encouraging customers who have credit balances to transfer to a different type of account that has appropriate rates of interest and are better suited to their needs.
- 12) BNZ will also be reconsidering its fees for the TotalMoney product. It will remove the fee for all personal customers with TotalMoney accounts around the same time the change to credit interest is made. The fee for TotalMoney business customers will remain for the time being, and may be removed at some point in the future.

Offsetting – further detail

- 13) Where a customer has a TotalMoney loan account, this account will generally be grouped with at least one other TotalMoney transaction account. There must be at least one loan account in the group, and may be more at BNZ's discretion.
- 14) Where one loan account is in the group, the interest payable on the loan account is calculated on the balance of the loan account less the credit balances of accounts in the group. This will be the case as a matter of law (in terms of TotalMoney documentation) and as a matter of practice (in terms of BNZ's computer system). There is no actual set-off, netting, or transfer of funds, or transfer of any interest in or entitlement to funds. "Offsetting" occurs before debit or credit interest is calculated.
- 15) For example, in the case of a loan account that would otherwise be the same as a standard variable rate table home loan facility over 30 years with a "minimum payment", there will be no provision for the amount of interest saved under "offsetting" to reduce the "minimum payment". The effect of "offsetting" is the same as a decrease in the floating interest rate and a decision not to reduce the amount of the "minimum payment". In either case, the term of the loan is reduced because the principal portion of the payment is effectively increased. In the case of a non-table loan, interest payments will be reduced by "offsetting", principal repayments will not change, and the loan term will not reduce. In the case of interest only loans, repayments comprise solely interest, so the impact of "offsetting" will be to reduce the interest amount and therefore reduce the "minimum payment".

- 16) Where there is more than one loan account in the group, the loan accounts in the group are given a default priority; namely, the oldest loan account in the group will receive the highest priority. However, the customer may elect two or more of those loan accounts to be prioritised for "offsetting" purposes. The loan account with the highest priority will receive the benefit of "offsetting" first. It is only where the credit balances of transaction accounts in the group exceed the balance of that highest priority loan account that the next highest priority loan account balance is offset, and so on.
- 17) Until the changes are made to the credit interest aspect of TotalMoney, if the total credit balances of the transaction accounts are greater than the total debit balance of the loan accounts in a group, credit interest will be applied to the difference. Interest is then paid on a prorated basis to the credit balance accounts in accordance with the balance of those accounts (essentially in line with the "pooling" feature of TotalMoney).
- 18) BNZ will be removing the payment of interest on credit balances from 31 October 2022. As discussed at 11), this is as part of a replacement of BNZ's core banking systems and is intended to simplify products to customers.
- 19) BNZ calculates interest daily. If, during a month, BNZ has both an entitlement to receive interest (that is, the balance of participating loan accounts exceeds the balance of all transaction accounts in a group) and, at another point in the month, BNZ has an obligation to pay interest (that is, the balance of transaction accounts in a group exceeds the balance of the relevant loan accounts), then the two interest payments are made and are not set-off.
- 20) The "offsetting" feature of TotalMoney essentially offers the same benefits to customers as offered by a revolving credit loan (such as BNZ's "Rapid Repay" product) in terms of lower interest costs and a shorter time to repay the loan. However, this feature overcomes a primary perceived disadvantage of a revolving credit loan because it allows customers to retain separate account balances (which customers may prefer when managing their finances).
- 21) No arrangement must exist between the customers who have grouped their accounts that provides for the loan account owner(s) to make a payment(s) to the transaction account owner(s) in consideration for the transaction account owner(s) "offsetting" their accounts under TotalMoney.

Business purposes

- 22) When TotalMoney was established, customers were contractually prohibited from using TotalMoney for business purposes. BNZ later removed the prohibition on the

business use of TotalMoney. BNZ extended the availability of TotalMoney to business customers to give them the same tools for managing their financial affairs as it gives to personal customers.

- 23) Under the terms and conditions applicable to TotalMoney, customers were able to use TotalMoney accounts for business purposes. This means that, customers, such as sole traders, could group business and non-business product accounts.
- 24) On 1 November 2019, BNZ stopped offering TotalMoney for Business lending for sale and intends to keep this off-sale. However, there are existing TotalMoney for Business customers who have not yet transferred to a different product.
- 25) In August 2022 BNZ stopped offering new TotalMoney home lending to non-natural persons (such as trusts and look-through companies). However, existing TotalMoney home loans for these customers at the date of this Ruling remain as is.

Terms and Conditions for the TotalMoney home loan products

- 26) The TotalMoney product home loans are documented primarily in a Home Loan Facility Master Agreement, and personalised Letter of Advice. The relevant TotalMoney Account Terms and Conditions (i.e. either for Personal & Sole Trader or Trusts and Companies) also apply as a separate contract to the TotalMoney Home Loan contract.
- 27) Table loans provide for regular payments and a set date when they will be paid off. Most payments early in the loan term comprise interest, while most of the payments later in the term comprise repayments of the principal. Non-table loans have two separate repayments, one of interest and one of principal. Customers repay the same amount of principal each time and interest is charged separately.
- 28) The documentation for a TotalMoney standard variable rate table home loan facility over 30 years is largely the same as that for current BNZ home loan facilities that are standard variable rate table home loans over 30 years. The only differences are; branding (the name on the Letter of Advice), the interest calculation (which provides for the effect of the "offset"), and, in relation to table loans, the provision stating that where the loan has the benefit of the "offset" to reduce the interest cost, the "minimum payment" specified for the loan will not decrease because of any interest savings but instead the loan term will reduce.
- 29) Under a non-table loan, any interest saving (whether as a result of a reduction in the applicable interest rate because of a general decrease in interest rates, or because of the offset feature) would result in either a reduction of the interest repayment or a reduction in the loan term (if the original repayment amount is maintained despite the interest saving). In relation to a TotalMoney product home loan that is a table home

loan, a reduction is only allowed in the loan term. Under a TotalMoney product interest only loan, any interest saving (whether as a result of a reduction in the applicable interest rate because of a general decrease in interest rates, or because of the offset feature) would result in a reduction of the interest repayment.

Terms and conditions for TotalMoney business loan products

- 30) The TotalMoney business loans are documented primarily in the Facility Document – TotalMoney Business Term Loan and other Ancillary documents. The business loans are also subject to the relevant BNZ Business Lending Master Terms and Conditions. As previously stated at 24), BNZ stopped offering TotalMoney for Business lending for sale from 1 November 2019.

Groups

- 31) TotalMoney is based on a group of participating accounts. Groups can be comprised of only the following categories:
- a) Natural persons:
 - i) The accounts of an individual, or the individual and joint accounts of married, de facto, and civil union couples, and any of their children may be combined as part of one group of accounts.
 - ii) For example, the various accounts of one natural person, Jane, or, the various accounts (individual or joint) of Jane and her husband John and their child Joe. The group is not limited to residents of New Zealand, although the group may not include both residents and non-residents.
 - b) One company or one trust:
 - i) Multiple accounts of one company (including a qualifying company or look through company) or one trust may be combined as part of a group. Only one entity can be in a group at any time.
 - ii) Accounts of different entities (including the entity and any related individual) cannot be pooled or offset.
- 32) Accounts may only be included in one group. An individual may have accounts in three groups, through membership in one as an individual customer, the second as a joint customer and in the third as a sole trader. A group may not include more than one sole trader's accounts.

- 33) A customer may be a resident or non-resident of New Zealand for tax purposes. However, where a group of accounts consists of accounts owned by more than one legal person, BNZ will obtain representations from the owners of those accounts that they do not have different tax residence status. That is, where more than one legal person is participating in a group of accounts, either all persons must be residents of New Zealand for tax purposes or all persons must be non-residents of New Zealand for tax purposes.

BNZ's objectives

- 34) BNZ's objectives in providing TotalMoney are to:
- a) increase its market share, particularly for home loans and transaction-type accounts;
 - b) increase customer satisfaction and customer retention;
 - c) ensure customers are using the most appropriate product for their needs; and
 - d) improve its brand awareness and be seen as a market leader.

How the Taxation Laws apply to the Arrangement

The Taxation Laws apply to the Arrangement as follows:

Financial arrangements rules

- a) When a credit balance of a transaction account and a debit balance of a loan account are "offset", there is no amount of consideration paid or payable because of that "offset" for the calculation of income and expenditure under ss EW 15 and EW 31 of the "financial arrangements rules" (as defined in s EW 1(2)).

Resident Withholding Tax (RWT), Non-Resident Withholding Tax (NRWT) and Approved Issuer Levy (AIL)

- b) Under the "pooling" feature of TotalMoney:
 - i) RWT (as defined in s YA 1) and NRWT (as defined in s YA 1) must be deducted by BNZ from the interest credited (if any) to the participating transaction accounts in a group in accordance with the RWT rules (as

- defined in ss RE 1(1) and YA 1) and the NRWT rules (as defined in ss RF 1(1) and YA 1);
- ii) For an account that is a “registered security” (as defined in s 86F of the SCDA), “approved issuer levy” (as defined in s 86F of the SCDA) may be paid by an “approved issuer” (as defined in s 86F of the SCDA) for the interest credited (if any) to that account pursuant to s 86I of the SCDA.
- c) Under the “offsetting” feature of TotalMoney:
- i) There is no payment of or entitlement to “interest” (as defined in s YA 1) for the credit balances of participating transaction accounts in a group, and no obligation to deduct RWT or NRWT or pay AIL, except to the extent that the combined credit balance of those accounts exceeds the combined debit balance of the lending facility accounts prior to the changes being made.
 - ii) To the extent that any interest is credited to participating transaction accounts in a group:
 - A) RWT (as defined in s YA 1) and NRWT (as defined in s YA 1) must be deducted by BNZ from the interest credited to the participating transaction accounts in a group in accordance with the RWT rules (as defined in ss RE 1(1) and YA 1) and the NRWT rules (as defined in ss RF 1(1) and YA 1);
 - B) For an account that is a “registered security” (as defined in s 86F of the SCDA), “approved issuer levy” (as defined in s 86F of the SCDA) may be paid by an “approved issuer” (as defined in s 86F of the SCDA) for the interest credited to that account pursuant to ss 86F and 86I of the SCDA.

Section CC 7

- d) No income arises under s CC 7 for BNZ or its customers in relation to the Arrangement.

Section BG 1

- e) Section BG 1 does not apply to the Arrangement.

The period or income year for which this Ruling applies

This Ruling will apply for the period beginning on 1 April 2022 and ending on 31 March 2027.

This Ruling is signed by me on the 13th day of December 2022.

Scott Davidson
Tax Counsel

About this document

Product Rulings are issued by the Tax Counsel Office and Customer and Compliance Services. Product Rulings set out the Commissioner's view on how tax laws apply to a particular "product" – which is an arrangement that a specified taxpayer is likely to enter into with a number of people on identical terms. Taxpayers who enter into the arrangement described in a Product Ruling may apply the ruling but are not obliged to do so. Product Rulings are binding on the Commissioner. This means that if you are entitled to apply a Product Ruling and you have calculated your tax liability in accordance with the ruling, the Commissioner must accept that assessment. A Product Ruling applies only to the taxation laws and arrangement set out in the ruling, and only for the period specified in the ruling. It is important to note that a general similarity to an arrangement covered by a Product Ruling will not necessarily lead to the same tax result.