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Industrial and Commercial Bank of China (New Zealand) Limited

Issued: 14 April 2026

BR Prd 26/02

The Arrangement is a mortgage offset banking product that the Industrial and Commercial Bank of China (New Zealand) Limited offers to customers (individuals) who take out a home loan.

The Product involves "offsetting" (for interest calculation purposes) a home loan account balance ("offset portion") against a credit balance in a Specified Account. This reduces the interest payable by a customer on their home loan balance.

START DATE – END DATE

{01/04/2025 – 31/03/2030}

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

Product Ruling – BR Prd 26/02

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 Industrial and Commercial Bank of China (New Zealand) Limited (the Bank).

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, GA 1, RE 1 to RE 6, RF 1, RF 2, RF 2B, RF 2C, RF 3, RF 4; 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 mortgage offset banking product (the Product) that the Bank offers to customers (individuals) who take out a home loan.

The Product involves “offsetting” (for interest calculation purposes) a home loan account balance (“offset portion”) against a credit balance in a Specified Account. This reduces the interest payable by a customer on their home loan balance.

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

Documents relevant to the Arrangement

The Arrangement is set out in the documents listed below, copies of which the Tax Counsel Office, Inland Revenue, received on 21 January 2026:

- General Terms and Conditions;
- Home Loan Application Form;
- Home Loan Approval Letter;
- Home Loan General Terms and Conditions;

- Home Loan Agreement; and
- Retail Banking Fees and Charges Brochure.

Primary feature of the Product

- 1) Customers may have a variety of accounts with the Bank, including transaction accounts, savings accounts and loan accounts. Loan accounts may be table only, principal and interest, interest only, fixed, or variable home loan accounts.
- 2) The primary feature of the Product is the offsetting feature. This feature operates as described below.
- 3) To participate in the Product, a customer must have a home loan with an offset portion. Customers may convert an existing non-offset home loan to an offset home loan account.
- 4) Where a customer has a loan account with an offset portion, the customer must also have a Specified Account so interest can be calculated on the offset portion of the customer's loan.
- 5) The Product applies an offset to an offset portion of a home loan against a Specified Account, with offset being one category of loan applicable to home loans.

How the offsetting works

- 6) The offsetting is to calculate the interest payable on only the offset portion of the home loan.
- 7) Interest on the offset portion of the home loan is calculated, then paid by the customer, on the difference between the offset portion of the home loan balance and the credit balance of the customer's Specified Account. Under the terms and conditions agreed between the Bank and its customers for the Product, the Bank pays no interest on the credit balance that is offset against the offset portion of the home loan.
- 8) Where the credit balance of the customer's Specified Account exceeds the balance of the offset portion of the home loan it is offset against, the balance of the excess credit balance on which interest is receivable will be subject to the resident withholding tax (RWT), non-resident withholding tax (NRWT) or approved issuer levy (AIL) rules.
- 9) The interest payable on the home loan account is calculated by reference to the balance of the offset portion of the home loan less the credit balance of the Specified Account. This is the case as a matter of law (in terms of the Product's documentation) and as a matter of practice (in terms of the Bank'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.

- 10) No provision exists for any 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. The term of the loan is reduced because the principal portion of the payment is effectively increased.
- 11) If the credit balance of the Specified Account is greater than the debit balance of the offset portion of the home loan, credit interest is applied to the difference and paid to the credit balance account.
- 12) The Bank calculates interest on a daily basis. If, during a month, the Bank is entitled to receive interest (that is, the balance of the offset portion of the home loan exceeds the balance of the Specified Account) and, at another point in the month, is obliged to pay interest (that is, the balance of the Specified Account exceeds the balance of the offset portion of the home loan), the two interest payments are made and not set off.
- 13) The offsetting feature of the Product essentially offers the same benefits to customers as a revolving credit loan in terms of lower interest costs and a shorter time to repay the loan. However, this feature overcomes a perceived disadvantage of a revolving credit loan because it allows customers to retain separate account balances (which customers may prefer when managing their finances).

Terms and conditions for the Bank's home loan products

- 14) Each of the Bank's home loans is explained in a collection of documents, including a:
 - a) home loan general terms and conditions, which is a standard form "master" document that contains primarily generic provisions that apply to all the Bank's personal and home loan facilities;
 - b) home loan approval letter, which approves the Bank's lending arrangements, outlining the type of loan and loan amount, as well as any loan-to-value applicable to the loan; and
 - c) loan agreement, which contains details of the parties to the loan, amounts borrowed, and terms and conditions applicable to the loan drawn down by the customer.
- 15) 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 later payments comprise principal repayments. Customers repay the same amount of the

principal each time and interest is charged separately. The Product can be used for table loans to reduce the amount of interest charged on the offset portion if the Specified Account has a credit balance.

- 16) Where an amount of a home loan is subject to offsetting, two separate repayments occur: one of interest and one of principal. Customers repay an amount of principal each time and interest is charged separately. If the variable offset interest rate increases during the loan's term, the payment amounts increase so the loan is paid off over the same term as originally agreed between the Bank and the customer. If the variable offset interest rate decreases during the loan's term, the payment amounts remain the same and the term of the offset portion of the home loan is reduced (but, a customer has the option to reduce the payment amounts instead if the variable offset interest rates reduce over the term of the loan).

Bank's objectives

The Bank's objectives in providing the Product are to:

- increase its market share, particularly for home loans and transaction-type accounts;
- increase customer satisfaction and customer retention;
- ensure customers are using the most appropriate product for their needs; and
- improve its brand awareness and be seen as a market leader.

Condition stipulated by the Commissioner

This Ruling is made subject to the following condition:

- a) All interest rates related to the Product are arm's length market interest rates.

How the Taxation Laws apply to the Arrangement

Subject in all respects to any condition stated above, the Taxation Laws apply to the Arrangement as follows.

Financial arrangements rules

When a credit balance of a Specified Account and a debit balance of the offset portion of the home loan are offset, no amount of consideration is 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, non-resident withholding tax and approved issuer levy

Under the offsetting feature of the Product, the following apply:

- a) There is no payment of or entitlement to “interest” (as defined in s YA 1) for the credit balance of a Specified Account and no obligation to deduct RWT or NRWT or pay AIL, except to the extent that the credit balance exceeds the debit balance of the offset portion of the home loan.
- b) To the extent that interest is credited to a Specified Account:
 - i) RWT and NRWT (as defined in s YA 1) must be deducted by the Bank from the interest credited to the Specified Account 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); and
 - ii) for an account that is “registered security” (as defined in s 86F of the SCDA), AIL (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 under ss 86F and 86I of the SCDA.

Section CC 7

No income arises under s CC 7 for the Bank or its customers in relation to the Arrangement.

Section BG 1

Section BG 1 does not apply to the Arrangement.

Period or income year for which this Ruling applies

This Ruling applies for the period beginning on 1 April 2025 and ending on 31 March 2030.

This Ruling is signed by me on the 14th day of April 2026.

Sarah Kiely
Group Lead
Significant Enterprises

About this document

Product Rulings are issued by the Tax Counsel Office and Customer and Compliance Services. 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.