Non-resident withholding tax (NRWT) on related party loans

If you have clients who have loans or other financial arrangements where a non-resident provides funds to an associated New Zealand resident (or New Zealand branch of an associated non-resident), they may be required to pay NRWT on interest owing before it is paid.

To determine this they need to make a calculation to find if there is non-resident financial arrangement income (NRFAI). If there is NRFAI then NRWT will be paid on the accrued interest – the NRFAI amount.

This rule applies to arrangements where the borrower claimed deductions for interest for in years beginning on or after 31 March 2017.

NRFAI arises where accumulated payments made on or before the 20th day of the third month after the end of the income year are 90% or less of the accumulated deductions on the arrangement up to the end of the previous income year.

If there is NRFAI, it is treated as being paid on the last day of the second month following the end of the borrower’s income year. Any NRWT payable will then be included in the return due on the 20th of the next month.

For a borrower with a standard 31 March balance date, this means any payments made on or before 20 June are included in the calculation, and any NRWT payable will be included on the return due on the same date.

A loan where interest is paid as it accrues will not be subject to the NRFAI rule.

If a client prefers not to have to apply the rule, they may need to make an interest payment on their related party loans on or before 20 June 2019 to ensure NRFAI will not arise from the arrangement. If there is no NRFAI, then NRWT is payable on interest using the payments basis.

Example
If a borrower has deducted interest in the year ended 31 March 2018, and not paid at least 90% of the amount deducted as interest in the period from 1 April 2017 to 20 June 2019, they will need to pay NRWT on all deducted but unpaid interest on the loan.

For a taxpayer with a June balance date, the date would be 20 September 2019.

More information
You can find more information in these publications:
Standard cost household service for boarding service providers

For the 2019 income year:
- the weekly variable standard-cost for one to two boarders will be $270 each, and
- the weekly variable standard-cost for third and subsequent number of boarders will be $222 each.

These amounts have been adjusted as a consequence of the annual movement of the Consumers Price Index for the 12 months to March 2019, which showed an increase of 1.5%.

For boarding service providers who have a standard 31 March balance date, the new amounts apply for the period from 1 April 2018 to 31 March 2019.

Student loan interim repayments

If you have customers with student loan interim repayments for their adjusted net income you need to remind them their instalment is due:
- 28 July for a 30 June 2019 due date, or
- 28 August for a 31 March due date.

Note

In our February issue No 221 in the article "Tax implications of working for accommodation", we advised you to "Find out more at www.ird.govt.nz under "Updates" on homepage."

Since the new website went live that information can now be found at www.classic.ird.govt.nz/technical-tax/general-articles/

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