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MHK CHARTERED ACCOUNTANTS COMMENT ON IRD INCREASING INTEREST CHARGED ON UNDERPAID TAX

IRD increases Use of Money Interest rate

The IRD will apply from the 8th May 2015, an increased in the use of money interest (UoMI) rate they charge on unpaid taxes due, from 8.40% to 9.21%. In addition they also increased the interest rate they pay on tax credits from 1.75% to 2.63%.

The increase applies to all taxes that are unpaid and payable, as well as for in most cases for companies and trusts, terminal tax that is not legally payable until the next terminal tax payment date, which is 7th April 2016 for those taxpayers with a 31st March 2015 balance date.

Ian Malcolm, Managing Director of MHK Chartered Accountants, disagrees with this rate being increased, with this happening just before the Reserve Bank recently reducing the OCR from 3.25% to 3.0%, and commentaries from many economists and banks suggest that the OCR is likely to be dropped further.

Mr Malcolm stated "It is fair that the IRD should charge interest on tax arrears. It is even fair that the rates they charge are above first mortgage borrowing rates at banks, which are backed by securities such as a house, whereas unpaid tax owing to the IRD is unsecured by hard assets like a house, however the IRD are still protected under the Tax Acts. The IRD should align interest rates with the OCR and other borrowing rates, and should be far more proactive in dropping the rates they charge when the OCR and bank rates drop."

He comments further: "The interest rates paid by the IRD are close to those available from banks for funds placed on call deposit with a bank. The bank's interest rate differential between funds on deposit with them at floating rates, and funds they lend at floating rates, is close to 4%, that's a typical profit margin a bank makes. The IRD's differential between 9.21% it charges, and 2.63% it pays, is 6.58%, significantly higher than banks. This seems unfair, the gap should be smaller."

"With most taxpayers having access to funds at interest rates that are significantly lower than 9.21%, it is wise to utilise other sources of finance rather than the IRD, and as soon as any tax liability is known that may incur interest, pay those amounts immediately. In most cases, the cost of borrowings will be tax-deductible. "

The IRD's comment on this is that these rates are reviewed regularly to ensure they are in line with market interest rates and that the new rates are consistent with the Reserve Bank floating first mortgage new customer housing rate and the 90-day bank bill rate.

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