

## Fact sheet: Business interest and RWT

### Business interest and RWT

Resident withholding income includes interest and dividends. Generally, resident withholding tax (RWT) must be paid on it and if you earn interest or dividends, you will be liable for RWT, unless you have a valid certificate of exemption from RWT or have been provided an exempt status by Inland Revenue.

If you earn interest or dividends or if you pay business related interest, it's a good idea to understand how resident withholding tax (RWT) affects you.

### Current RWT Rates

<i>If your taxable income is...</i>	<i>your RWT rate is ...</i>	<i>Note</i>
\$0 – \$14,000	10.5%	You must have a 'reasonable expectation' of earning \$14,000 or less.
\$14,001 - \$48,000	17.5%	
\$48,001 - \$70,000	30%	
\$70,001 and over	33%	This is the RWT default rate for existing accounts if you haven't elected a rate.
\$180,001 and over	39%	In line with the new tax rate introduced on 1 April 2021
<i>If you do not ...</i>	<i>your RWT rate is ...</i>	<i>Note</i>
provide a valid IRD number	45%	The non-declaration rate applying from 1 April 2020.
<i>If you are a ...</i>	<i>your RWT rate is ...</i>	<i>Note</i>
Company	28%, 33% or 39%	Companies may elect a rate if they provide their IRD number. If they do not, 28% is the RWT default rate.
Trustee or a Māori authority	17.5%, 30%, 33% or 39%	A trustee of a testamentary trust may also use the 10.5% rate.

- Companies must notify their company status to their interest payer
- Trustees and Māori authorities are not required to notify company status to their interest payer

### Taxpayers who pay business related interest

If you pay business-related interest on money lent, be aware of your RWT obligations.

If you pay more than \$5,000 in business related interest per year, other than to a bank or normal lending institution, you are required to register with Inland Revenue as an RWT payer. You must deduct RWT at the time you pay interest to the recipient, unless the recipient has a valid certificate of exemption from RWT or has been provided an exempt status by Inland Revenue.

If the amount of RWT you deduct is \$500 or more each month, you must pay Inland Revenue by the 20th of the following month.

If the RWT deducted is less than \$500 per month, each time the deductions accumulate to \$500, you must pay Inland Revenue by the 20th of the month after the month the deductions have reached \$500. Once the RWT deductions have been paid to Inland Revenue, the \$500 accumulation threshold recommences.

Inland Revenue can charge significant penalties and interest when RWT deductions are not paid at the correct rate or on time.

## Taxpayers who earn interest

Taxpayers who earn interest and have provided a valid IRD number can elect their own resident withholding tax rate, depending on their income. If you've given your interest payer your IRD number and company status, you may use either the 28%, 33% or 39% rate. Your bank or fund manager deducts the tax before they pay you.

Note no RWT is required to be deducted on interest received where you have a valid certificate of exemption from RWT or have been provided an exempt status by Inland Revenue.

## Dividends

Dividends are paid to company shareholders and are taxed at a flat RWT rate of 33% (unless the shareholders have a valid certificate of exemption from RWT or have been provided an exempt status by Inland Revenue). Dividends from a listed PIE are not liable for RWT.

## Keep in mind

A new rate for RWT came into effect from 1 April 2021 for taxpayers earning over \$180,000. Payers were required to make this available from 1 October 2021. If you are a taxpayer earning over \$180,000, you may have tax to pay if the new rate applies to your income for the year ending 31 March 2022. Let us know if you'd like us to go over it with you.

We have, unfortunately, seen examples of clients paying business-related interest to family members and friends, without being aware of their RWT obligations and incurring penalties and interest as a result. If you need to register as an interest payer, please contact us.

For more information, see the [Inland Revenue site](#).

Last reviewed on 23 January 2022

Important: Clients should not act solely on the basis of the material contained in this article. Items herein are general comments only and do not constitute nor convey advice per se. Changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. This article is issued as a helpful guide to our clients and for their private information. Therefore it should be regarded as confidential and should not be made available to any person without our prior approval.