



**Inland Revenue**  
Te Tari Taake

**IR240**  
April 2019

# Penalties and interest

What you need to know if you don't complete a return  
or pay on time



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# About this guide

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This guide explains why we charge penalties and interest. It also tells you about the different types of penalties and interest and how to avoid them.

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This guide covers:

- reasons why we charge penalties and interest
- the penalties and interest we charge
- ways to reduce or avoid penalties
- what to do if you can't pay your tax on time
- a glossary to help you understand the tax terms we use.

The simplest way to reduce or avoid penalties if you can't pay your tax is to contact us before the due date.

Contact us on one of the following numbers to talk about overdue returns:

- 0800 227 771 - personal (individual) enquiries
- 0800 377 771 - business (non-individual) enquiries.

If you realise you've made a mistake in your tax return, you can tell us about it and reduce penalties (by up to 100%) in some cases. We call this making a voluntary disclosure. For more information see our guide *Putting your tax returns right (IR280)* at [www.ird.govt.nz](http://www.ird.govt.nz) (search keyword: IR280).

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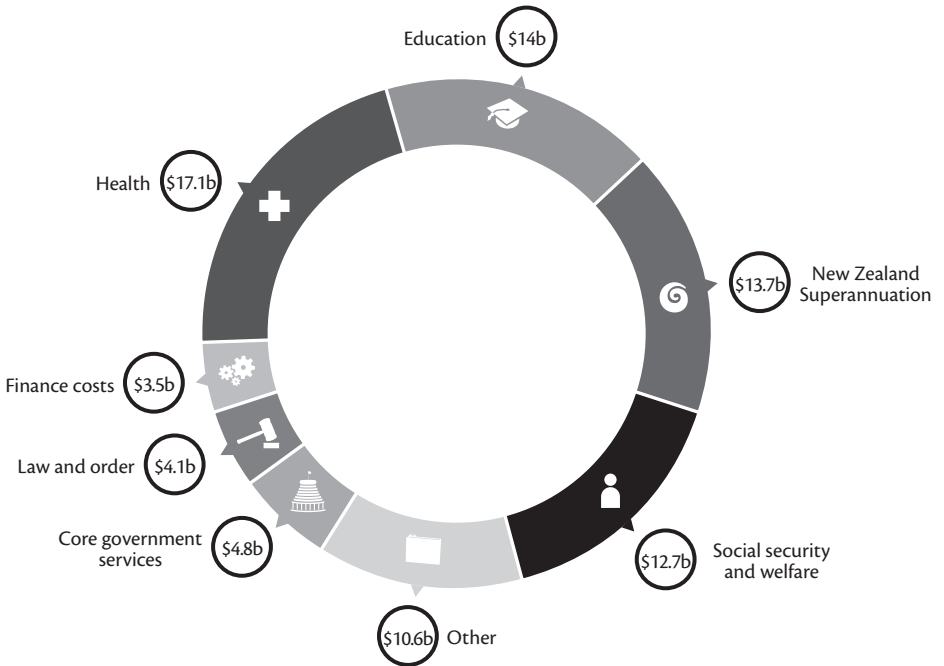
Child support penalties are different. Read our guide *Helping you to understand child support (IR100)* and see our website [www.ird.govt.nz](http://www.ird.govt.nz) (search keywords: child support penalties) for more information.

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# Why paying tax matters

Everyone who earns money in New Zealand must pay their share of tax. Here's how the Government spent our taxes in 2016-17.

The government uses taxpayers' money to pay for services we all need



# Why we charge penalties and interest

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We realise that sometimes your payments or returns are late for a reason. This is why we have measures in place such as grace periods, instalment arrangements and remission of penalties and (in some cases) interest—so people who normally meet their obligations are not penalised unfairly.

We charge penalties and interest consistently. This means everyone who pays, or files late has them added to their bill.

We charge interest on late or short paid taxes, and we also pay you interest for not having use of the money.

Keep on top of your taxes with these online resources.

You can customise the interactive calendar on our website to plan for due dates. View the calendar at [www.ird.govt.nz](http://www.ird.govt.nz) (search keyword: calendar).

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## **penalty**

money Inland Revenue charges when you don't meet your tax obligations

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## **interest**

money we charge on late or short paid tax, or pay you for overpaid tax

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# How we calculate the most common penalties

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The penalties that apply to almost all taxes are:

- late filing penalties
- late payment penalties
- shortfall penalties
- criminal penalties.

How we charge penalties depends on the type of return you should file and how late you pay your tax.

The type and amount of penalties we charge depends on the type of return you file, how late you pay your tax and what the errors are.

## Late filing penalties

We charge late filing penalties if you don't file a tax return on time. The penalties are different for each type of return.

Even if you think you won't be able to pay on time, it's still best to file your return to avoid the late filing penalty.

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### tax return

a form you complete to tell Inland Revenue how much tax you need to pay. There are different returns for the various taxes, eg income tax, GST, PAYE

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## Income tax returns

We only charge late filing penalties if you complete these returns late:

- *income tax return (IR3)*
- *IR4 companies income tax return.*

We'll charge a late filing penalty for these reasons.

- We tell you a return is late and that we'll charge a penalty, and you don't complete the return.
- You don't give us a valid reason for not completing your return on time and you don't have an extension of time.

We give you 30 days' notice before we charge a late filing penalty for an income tax return. If you complete your return within this time we won't charge the penalty.

The amount of the late filing penalty depends on your net income.

Net income	Penalty
Less than \$100,000	\$50
\$100,001 to \$1 million	\$250
More than \$1 million	\$500

We'll base the late filing penalty on your income in the previous year. Once you complete the return, we'll adjust the penalty to match your actual income.

## Residential land withholding tax returns

The penalty for completing a *Residential land withholding tax (RLWT) return (IR1100)* late is \$250.

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### extension of time

more time allowed by Inland Revenue to complete your income tax return

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If you request an extension of time after you've been charged a late filing penalty, you'll still have to pay the penalty

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### net income

total income less expenses

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## GST returns

The amount of the late filing penalty depends on the accounting basis you use for GST.

Accounting basis	Penalty
Payments	\$50
Invoice	\$250
Hybrid	\$250

We can't give extensions of time for GST returns. You won't get charged a late filing penalty if you've completed all your GST returns on time for the last 12 months. Instead, we'll send you a warning letter.

If you have another late return within 12 months, then we'll charge you a late filing penalty. Even if you can't afford the whole payment, we advise you to complete the return on time.

### ***Employment information***

The penalty for filing employment information late is \$250.

You won't get charged a late filing penalty if you've completed employment information on time for the last 12 months. Instead, we'll send you a warning letter. If you are late within the next 12 months, then we'll charge you a late filing penalty.

We can't give an extension of time, so we advise you to complete the return on time.

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### **GST (goods and services tax)**

a tax added to the sale price of most goods and services in New Zealand

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### **PAYE (pay-as-you-earn)**

a combination of income tax and ACC earners' levy an employer deducts from an employee's salary or wages and pays to Inland Revenue

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### **Employment information**

information employers complete to show how much money they've paid their employees or contractors, and the deductions they've made each payday

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Small employers have total PAYE and ESCT of less than \$500,000 a year. Large employers have total PAYE and ESCT of \$500,000 or more.

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## When the late filing penalties are due

Return	Penalty due	Example
Income tax (IR3 and IR4 returns)	The later of: <ul style="list-style-type: none"> <li>• 30 days from the date of the statement showing the penalty</li> <li>• the due date for the end-of-year tax payment.</li> </ul>	Ted receives a statement dated 30 September 2018 showing a late filing penalty. His end-of-year tax is due 7 February 2019. The penalty is due on 7 February 2019.
GST	One month after the GST return was due.	Judy's GST return was due 28 August 2018. The return was late, and the penalty is due 28 September 2018.
<i>Employment information</i> NOTE Only one late filing penalty is charged for a month.	30 days after the end of the month in which the employer is required to deliver their employment income information to the Commissioner.	<p>Wiremu, a non-electronic filer of employment information, was due to file 27 May 2020. This is his second late return in 12 months so we charge a penalty. The penalty is due on 30 June 2020.</p> <p>A company's electronically filed employment information was due on 10 July 2020. They missed the filing date for the second time in 12 months so we charge them a penalty. The penalty is due on 30 August 2020.</p>
<i>Residential land withholding tax (RLWT) return (IR1100)</i>	One month after the IR1100 was due.	Mary's IR1100 is due 20 October 2018. The return was completed late so the penalty is due on 20 November 2018.

## Late payment penalties

We may charge late payment penalties on overdue payments.

We charge the penalties in stages. This means that the longer a payment remains overdue, the more penalties we'll add.

The stages are:

- 1% the day after the due date
- 4% seven days later
- 1% each month when the tax to pay remains overdue (on some taxes).

We can stop some late payment penalties being added to your account if you set up a plan with us to pay off your tax. For more information on instalment arrangements, see "What to do if your return or payment will be late" (page 26).

### 1% monthly penalty

The 1% monthly penalty is no longer being charged on amounts that remain overdue for:

- GST - return periods ending 31 March 2017 onwards,
- Income tax including provisional tax for the 2018 income year onwards,
- Working for Families Tax Credits assessments for the 2018 income year onwards.

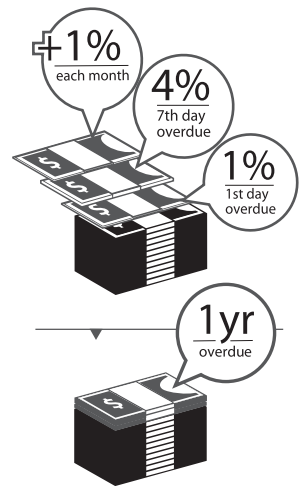
The initial penalty of 1% and the further 4% penalty will still be charged on these periods.

You'll continue to have 1% monthly penalties charged on periods that fall outside the above rules and any other unpaid taxes.

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To find out how we charge penalties for late student loan payments, see page 23.

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Penalties after 1 year

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## Late payment grace period

We realise that sometimes you simply forget to pay us. A late payment grace period gives you an extra 30 days to pay before we add late payment penalties.

The grace period is automatic. If you miss a payment and are entitled to a grace period, we'll send you a letter. You'll qualify for a late payment grace period if you've paid all your taxes on time for the last two years. You'll qualify for a new grace period after another two years of paying on time.

If you don't pay the tax due within the grace period, we'll charge late payment penalties from the day after the due date. A late payment grace period suspends penalty charges, but we'll still charge interest. For more information go to [www.ird.govt.nz](http://www.ird.govt.nz) (search keywords: payment grace).

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Making payments to us is easy. See page 24 for the different ways you can pay.

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## Shortfall penalties

We calculate penalties on tax shortfalls as a percentage of the tax shortfall. These penalties can be applied to most taxes, including student loans (not to child support). A shortfall penalty can also be charged if you've underestimated your provisional tax.

We charge shortfall penalties based on the level of seriousness of the offence. Each offence is a category defined by law and has an associated percentage. For more information go to [www.ird.govt.nz](http://www.ird.govt.nz) (search keywords: shortfall penalties).

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**tax shortfall**  
a deficit or  
understatement of tax

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Shortfall penalty categories	Standard %
Not taking reasonable care	20%
Unacceptable tax position	20%
Gross carelessness	40%
Adopting an abusive tax position	100%
Evasion	150%

Shortfall penalties are usually due 30 days after the date we issue the notice of assessment or statement showing the penalty.

### Example

A company leaves out \$10,000 income from their *IR4 companies income tax return*. This means they have a tax shortfall of \$2,800 (the company tax rate is 28%).

We consider this to be a "gross carelessness" error and add a 40% shortfall penalty.

Tax shortfall	\$2,800
40% penalty ( $\$2,800 \times 40\%$ )	\$1,120

The penalty of \$1,120 may be reduced if they meet certain criteria (page 14).

## Reductions and increases in shortfall penalties

If you realise you've made a mistake in your return and you tell us about it before we discover it, we may reduce the shortfall penalty applied. In some instances, we may cancel the penalty and you won't have to pay it.

Telling us about a mistake in your return is called making a voluntary disclosure. Usually, your penalty will be less if you tell us about an error rather than risking us finding it during an audit.

We can increase shortfall penalties by 25% if you try to hide or destroy information.

## Failing to provide information (member of multinational group)

A member of a large multinational group may be liable for a penalty of up to \$100,000 for failing to provide information or a document within the time required.

This may also apply where insufficient information or misleading information is provided.

## Criminal penalties

If you're convicted of breaking tax laws, the courts may charge you criminal penalties. These apply to all taxes.

If you act on behalf of someone else (eg as an employee, agent or officer) you can also be charged criminal penalties if you're responsible for them committing an offence.

For more information go to [www.ird.govt.nz](http://www.ird.govt.nz) (search keywords: criminal penalties).

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For more information about reductions and increases in shortfall penalties go to [www.ird.govt.nz](http://www.ird.govt.nz) (search keywords: reducing penalties).

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For more information about voluntary disclosures, see our guide *Putting your tax returns right (IR280)*.

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## Types of criminal penalties

Type of offence	What this means
Absolute liability offences	By law, you need to keep books and documents, eg accounts, relating to your tax affairs for a minimum of 7 years. You also need to be able to provide information on request, including tax invoices
Knowledge offences	Knowingly breaking a tax law or obligation
Evasion and similar offences	Knowingly evading or intending to evade tax. You can be charged for pretending to be another person for tax purposes
Offences relating to court orders	You can be charged criminal penalties if you don't obey a court order
Obstruction	Preventing an Inland Revenue officer from carrying out their duties
Aiding or abetting	Helping someone else to commit an offence

From July 2019 a failure to meet a requirement under the common reporting standards can result in a penalty of \$300 for each failure.

A failure to take reasonable care to meet certain reporting standards can result in penalties up to \$100,000.

Anyone who fails to provide information to a financial institution can be liable to a penalty of \$1,000.

These penalties are usually due 30 days from the date of issue of the notice of assessment of the penalty.

# Interest on taxes and penalties

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Interest is calculated daily. Government sets the interest rates, based on market rates.

You can see the current rates at [www.ird.govt.nz](http://www.ird.govt.nz) (search keywords: current interest).

You pay interest to the government if you haven't paid enough tax. This is compensation for not having use of the money and is called debit interest.

We pay you interest if you've paid too much tax, to compensate you for not having use of the money. This is credit interest.

Interest on provisional tax is charged at the same rates but has separate rules for when we start to pay and charge interest.

For more information, see our *Provisional tax guide (IR289)* or go to [www.ird.govt.nz](http://www.ird.govt.nz) (search keywords: provisional interest).

## Credit interest

If you overpay your taxes, we pay you credit interest. The day we start paying credit interest depends on how the credit came about.

We stop paying credit interest when the credit is refunded or transferred to another tax account.



Generally, we'll pay credit interest from the later of the day after:

- your payment was due
- you make a payment which creates a credit
- you complete your return.

### **Example**

Sam doesn't have a tax agent, so his 2018 income tax was due on 7 February 2019. Sam didn't complete his IR3 return until 5 May 2019, but made a payment of \$1,500 on 4 February 2019 because he thought he might have tax to pay.

His tax bill for the year was only \$900, leaving a credit of \$600. We start to add credit interest to the \$600 from 6 May 2019 because this is the day after he completed his return.

## Interest on GST refunds

The date we start calculating credit interest on a GST refund depends on when you complete your return.

If you complete it before the due date, we'll start calculating credit interest on the day after the earlier of:

- the 10th working day after you've completed it, or
- the date the return was due.

For GST periods ending 31 March 2018 or earlier, the 10 working day timeframe is 15 working days.

If you complete your return on or after the due date, we'll start calculating credit interest from the day after you complete it.

### Note

Non-resident GST business claimants are not eligible for credit interest on GST refunds.

## Debit interest

We charge debit interest on outstanding tax (including penalties) of more than \$100. Interest is charged from the day after the original due date.

## Interest grace period

Because interest is calculated daily, we have a grace period, so you can pay the balance on your notice or statement without receiving any further interest charges. The period starts from the date we issued either:

- your notice of assessment dated before the due date, or
- your statement of account dated after the due date.

The interest grace period only applies to interest charges. Penalties may still be added within the 30-day period.

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### **notice of assessment**

a bill showing what you owe or what we owe you

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### **statement of account**

a record of your financial transactions with us

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## Interest as income or an expense

Any interest we pay you is a type of income. This means you need to include the interest received in your tax return.

### Example

We pay Maria a refund on 24 February 2018. The refund has been increased by credit interest, so she needs to declare it in her 2019 tax return.

You can claim the interest as an expense in the year you pay it.

# How we charge penalties for some taxes

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Some taxes have different rules to calculate penalties. This section will be useful if you pay provisional tax, employ people or have a student loan.

## Provisional tax

The same late payment penalties that apply to most other taxes apply to provisional tax, but they're not calculated until your return is assessed. Late payment penalties apply to each instalment of provisional tax paid late.

The penalties will be added after we've received your income tax return.

For more information about late payment penalties on provisional tax, see our *Provisional tax guide (IR289)*.

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**provisional tax**  
income tax paid as instalments during the year

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## ***Employment information***

Two extra penalties apply to employment information.

### **Non-payment penalties**

We'll charge you non-payment penalties if you don't pay your PAYE on time, or don't enter into an instalment arrangement with us.

You can avoid these penalties by contacting us early. If you pay off your PAYE under an arrangement, you pay fewer late payment penalties and we won't charge you non-payment penalties.

When you haven't paid your PAYE on time, we'll remind you about the overdue payment. If you don't pay or arrange to pay in instalments within a month, we'll add a monthly 10% penalty to the unpaid PAYE.

The 10% penalty applies every month until you make a full payment or enter into an instalment arrangement. In the month you do this, we reduce the penalty to 5% as long as you keep to the arrangement.

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### **instalment arrangement**

an agreement we make with you to pay your tax bill, either at a later date or by regular payments over time

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## Non-electronic filing penalties

Completing your employment information in myIR saves you time, and ensures we receive your returns by their due date. You must complete your employment information online if your annual PAYE and ESCT deductions are more than \$50,000.00. If you don't, and we haven't granted you an exemption, we'll charge you a non-electronic filing penalty.

The penalty is the greater of \$1 per employee or \$250 for each schedule.

## Student loans

We may charge late payment interest on overdue student loan amounts of \$334 or more.

The amount of late payment interest we charge changes over time. Check the current rates at [www.ird.govt.nz](http://www.ird.govt.nz) (search keywords: late payment interest).

You're always better off to contact us if you won't be able to pay on time. When you enter into an instalment arrangement we reduce the amount of late payment interest.

Regular interest is only charged to your student loan if you're an overseas-based borrower.

For more information about student loans go to [www.ird.govt.nz](http://www.ird.govt.nz) (search keywords: student loans).

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To file your PAYE returns online you need a myIR secure online services account.

For more information, go to [www.ird.govt.nz](http://www.ird.govt.nz) (search keyword: myIR).

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## ESCT (employer's superannuation contribution tax)

tax on an employer's contribution to an employee's superannuation

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## overseas-based borrower

a student loan borrower who is away from New Zealand for 184 or more days in a row

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# How to make payments

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You have a number of choices when it's time to make payments.

You can pay electronically or by credit or debit card.

## Electronic payments

Make a payment through your internet banking. Your bank's website has onscreen instructions and you'll need to enter your full details (including your IRD number) so the money goes to the right account.

Electronic payments are made through your bank by:

- automatic payment
- online banking
- direct credit.

Each bank has different payment cut-off times - check with them to ensure your payment will be processed by the due date.

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For more information go to [www.ird.govt.nz](http://www.ird.govt.nz) (search keywords: making payments).

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## Credit and debit cards

You can use your Visa or MasterCard credit or debit card to make a payment through our website.

Go to [www.ird.govt.nz/makepayment](http://www.ird.govt.nz/makepayment) and follow the onscreen instructions.

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Westpac New Zealand charges a convenience fee of 1.42% for each transaction. You won't have to pay it if you're making payments from overseas for a student loan or liable parent child support.

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# What to do if your return or payment will be late

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If you know your returns or payments will be late, contact us before the due date. We can work with you to reduce the penalties.

For a full list of our phone numbers, see page 30.

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## Paying off your tax in instalments

As long as you make the agreed payments under an instalment arrangement, we stop charging you late payment penalties from the day you set it up. We still charge you interest because this compensates the government for unpaid tax.

We'll only charge you the first 1% late payment penalty if you set up a plan before the due date, as long as you keep to it.

If you set up an arrangement on or after the due date, we'll still charge you the first 1% and 4% penalties. Monthly late payment penalties are only charged up until the date you set up the arrangement - as long as you keep to it.

Paying your tax by an arrangement also means we won't take further actions to collect the money you owe, including extra payments from your wages. An instalment arrangement doesn't automatically include any future taxes you may need to pay.

If you get a late payment grace period and contact us about making an instalment arrangement before the grace period ends, late payment penalties will stop as soon as you set up the arrangement. The only difference is that you won't see the penalties added until the grace period has ended.

Setting up an instalment arrangement is easy. Contact us, send us a secure mail in myIR or submit a proposal online at [www.ird.govt.nz](http://www.ird.govt.nz) (search keyword: instalment).

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If you're an employer, paying your PAYE under an arrangement will also stop non-payment penalties from being added.

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## **Instalment arrangement for student loan repayments**

When you enter into an instalment arrangement for overdue student loan payments we'll still charge late payment interest.

For every month you make the payments as agreed, we reduce the percentage of late payment interest charged.

The reduced rate is 2% less each year than standard late payment interest.

## **Applying for remission of penalties or interest**

We realise that sometimes you'll have a reason for not making payments or completing your returns on time. In some cases we may consider remitting the penalties and/or interest from your account.

We can only do this if you've completed the return and paid any tax due.

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You won't be able to make further borrowings through the Student Loan Scheme if you have an overdue amount of \$500 or more on your student loan for a year or more.

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### **remission**

when we reverse the penalties or interest you've been charged

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## Remission of penalties

You can ask us to remit the penalties if the return or payment was late because:

- circumstances were beyond your control
- you made a genuine error
- the situation was a one-off
- we gave you incorrect advice.

You need to tell us the circumstances which led to the penalties being charged, and what steps you've taken to prevent it happening again.

## Remission of interest

We only remit interest in very limited circumstances (eg if we've given you incorrect advice), because it's charged to reimburse the government for unpaid tax.

You need to put your request for remission of interest in writing. If we gave you incorrect advice, you'll need to show how this led to interest being charged. We consider each case separately.

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For more information about our remission policies, see our standard practice statement SPS 15/02 *Remission of penalties and use-of-money interest* at [www.ird.govt.nz](http://www.ird.govt.nz) (search keyword: SPS 15/02).

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## Terms we use

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Employment information	Information completed by employers to show how much money they've paid their employees or contractors, and the deductions they've made on each payday.
ESCT (employer's superannuation contribution tax)	Tax on an employer's contribution to an employee's superannuation.
extension of time	More time allowed by Inland Revenue to complete your income tax return.
GST (goods and services tax)	A tax added to the sale price of most goods and services.
instalment arrangement	An agreement we make with you to pay your tax bill, either at a later date or by regular payments over time.
interest	Money we charge on late or short paid tax, or pay you for overpaid tax.
net income	Total income less expenses.
overseas-based borrower	A student loan borrower who is away from New Zealand for 184 or more days in a row.
PAYE (pay-as-you-earn)	A combination of income tax and ACC earners' levy an employer deducts from an employee's salary or wages and pays to Inland Revenue.
penalty	Money Inland Revenue charges when you don't keep to your tax obligations.
provisional tax	Income tax paid as instalments during the year.
remission	When we agree to waive the penalties or interest you've been charged for an appropriate reason.
tax return	Information you complete to tell Inland Revenue how much tax you need to pay. There are different returns for the various taxes, eg income tax, GST, PAYE.
tax shortfall	A deficit or understatement of tax.

# How to contact us

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## How to get our forms and guides

You can get copies of all our forms and guides by going to [www.ird.govt.nz](http://www.ird.govt.nz) and entering the shoulder number in the search box. You can also order copies by calling 0800 257 773.

## Need to speak with us?

Have your IRD number ready and call us on one of these numbers:

General tax, tax credits and refunds	0800 775 247
Employer enquiries	0800 377 772
General business tax	0800 377 774
Overdue returns and payments	0800 377 771

Our contact centres are open 8am to 8pm Monday to Friday, and 9am to 1pm Saturday. We record all calls. Our self-service lines are open at all times and offer a range of automated options, especially if you're enrolled with voice ID.

For more information go to [www.ird.govt.nz/contact-us](http://www.ird.govt.nz/contact-us)

## Privacy

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Meeting your tax obligations means giving us accurate information so we can assess your liabilities or your entitlements under the Acts we administer. We may also exchange information about you with some government agencies and another country.

For full details of our privacy policy go to [www.ird.govt.nz](http://www.ird.govt.nz) (search keyword: privacy).

# Our services

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## myIR Secure Online Services

Our online services make it quicker and easier to manage your tax and entitlements. Go to [www.ird.govt.nz/myir](http://www.ird.govt.nz/myir) to find out more.

## [www.ird.govt.nz](http://www.ird.govt.nz)

Go to our website for information and to use our services and tools.

## Follow us on Twitter

Follow [@NZInlandRevenue](https://twitter.com/NZInlandRevenue) for tweets on tax and social policy matters, including media releases, due dates and consultations.

## *Business Tax Update*

Get all your business tax news in one newsletter. Our *Business Tax Update* gives you updates on PAYE, GST, FBT and other relevant tax issues. Subscribe at [www.ird.govt.nz/subscribe](http://www.ird.govt.nz/subscribe) and we'll send you an email when we publish each issue.

## Language Line

Language Line is a free, phone-based interpreter service for customers whose first or preferred language isn't English. Over 40 languages are available—go to [www.languageine.govt.nz](http://www.languageine.govt.nz) for the full list. Whenever you need to talk to us you can ask for a Language Line interpreter and choose the language you feel most comfortable using.

