

# Penalties and interest

What you need to know if you don't file or pay on time



**Inland Revenue**  
Te Tari Taake

IR 240  
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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.

Call us on 0800 377 771 to talk about overdue returns.

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. You can find more about voluntary disclosures in our guide *Putting your tax returns right (IR 280)* at [www.ird.govt.nz](http://www.ird.govt.nz) (keyword: IR280).

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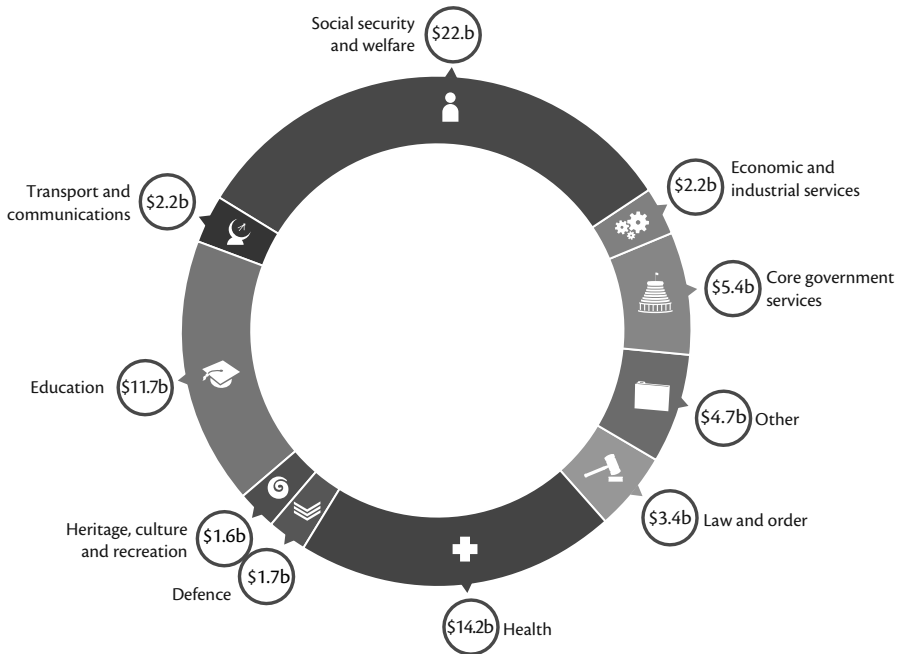
Child support penalties are different. Read our guide *Helping you to understand child support (IR 100)* and see our website [www.ird.govt.nz](http://www.ird.govt.nz) (keywords: child support penalties) for more information.

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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 2011–12.

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 plans 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 shortpaid 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) (keyword: calendar).

Our website also has a “Tool for business” site to help people with their taxes. Go to [www.ird.govt.nz](http://www.ird.govt.nz) (keyword: tfb).

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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 shortpaid 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 file these returns late:

- *Individual income tax return (IR 3)*
- *Income tax return – Companies (IR 4).*

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 file the return.
- You don't give us a valid reason for not filing 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 file 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 file the return, we'll adjust the penalty to match your actual income.

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### extension of time

more time allowed by Inland Revenue to file 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 filed 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. So, even if you can't afford the whole payment, we advise you to file the return on time.

### **PAYE returns** *Employer monthly schedule (EMS/IR 348)*

The penalty for filing an employer monthly schedule (EMS) late is \$250.

You won't get charged a late filing penalty if you've filed all your EMSs on time for the last 12 months. Instead, we'll send you a warning letter. If you have another late EMS within 12 months, then we'll charge you a late filing penalty.

We can't give an extension of time for an EMS, so we advise you to file 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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### **employer monthly schedule**

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

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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 (IR 3 and IR 4 returns)	<p>The later of:</p> <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 2013 showing a late filing penalty. His end-of-year tax is due 7 February 2014. The penalty is due on 7 February 2014.
GST	One month after the GST return was due.	Judy's GST return was due 28 August 2013. The return was late, and the penalty is due 28 September 2013.
PAYE <i>Employer monthly schedule (EMS/IR 348)</i>	<ul style="list-style-type: none"> <li>• Small employers One month after the EMS was due.</li> </ul>	Wiremu's EMS is due 5 February 2014. This is his second late return in 12 months so we charge a penalty. The penalty is due on 5 March 2014.
	<ul style="list-style-type: none"> <li>• Large employers One month after the EMS was due.</li> </ul>	An electronic company's EMS is due on 20 May 2014. They missed the filing date for the second time in 12 months so we charge them a penalty. The penalty is due on 20 June 2014.

## Late payment penalties

We charge late payment penalties on all 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:

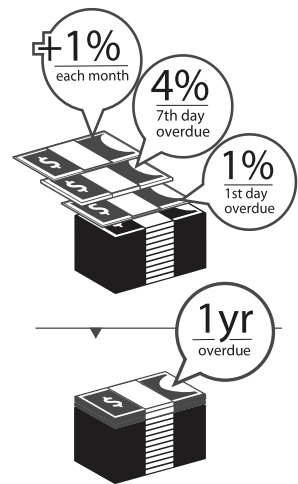
- 1% the day after the due date
- 4% seven days later
- 1% each month the tax remains overdue.

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. To find out more about instalment plans, see “What to do if your return or payment will be late” on page 26.

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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. To find out more, go to [www.ird.govt.nz](http://www.ird.govt.nz) (keywords: payment grace).

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Making payments to us is easy. Go to page 24 to see 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, but 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. Find out more about each category at [www.ird.govt.nz](http://www.ird.govt.nz) (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 *Income tax return – Companies (IR 4)*. 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 then be reduced if they meet the criteria (see 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.

## Criminal penalties

If you're convicted of breaking tax laws, the courts may charge you criminal penalties. Criminal penalties 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.

You'll find more information on our website [www.ird.govt.nz](http://www.ird.govt.nz) (keywords: criminal penalties).

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You can find more information about reductions and increases in shortfall penalties on our website [www.ird.govt.nz](http://www.ird.govt.nz) (keywords: reducing penalties).

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To find out more about voluntary disclosures, read our guide *Putting your tax returns right* (IR 280).

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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. 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 also 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

# 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) (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, read our *Provisional tax guide* (IR 289) or go to our website [www.ird.govt.nz](http://www.ird.govt.nz) (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 file your return.

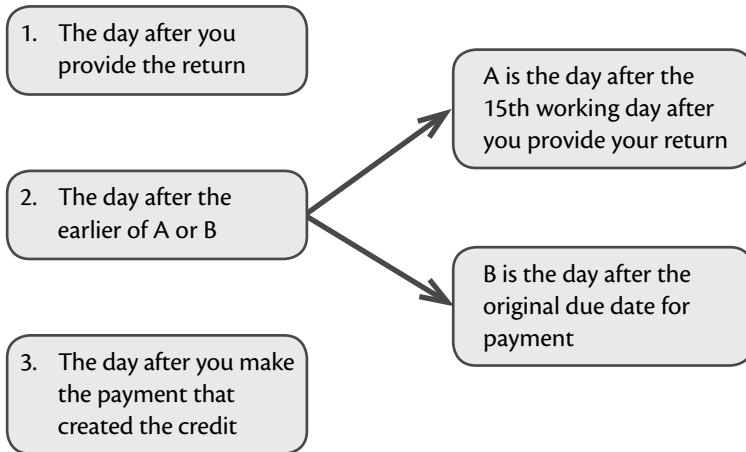
### **Example**

Sam doesn't have a tax agent, so his 2012 income tax was due on 7 February 2013. Sam didn't file his IR 3 return until 5 May 2013, but made a payment of \$1,500 on 4 February 2013 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 2013 because this is the day after he filed his return.

## Interest on GST refunds

We calculate interest on GST refunds from the latest of three possible dates.



## 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 2013. The refund has been increased by credit interest, so she needs to declare it in her 2014 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 you file your return. 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 further information about late payment penalties on provisional tax, read our *Provisional tax guide (IR 289)*.

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

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## **PAYE and the *Employer monthly schedule* (EMS/IR 348)**

Two extra penalties apply to PAYE and the *Employer monthly schedule* (EMS/IR 348).

### **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 plan with us.

You can avoid these penalties by contacting us early. If you pay off your PAYE under a plan, 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 plan. In the month you do this, we reduce the penalty to 5% as long as you keep to the plan.

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### **instalment plan**

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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## Electronic filing penalties

We have an online filing service for PAYE called ir-File. Filing your EMS through ir-File saves you completing a paper form each month. You must file your EMS online if your annual PAYE and ESCT deductions are more than \$100,000. If you don't, and we haven't granted you an exemption, we'll charge you an 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) (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 plan we reduce the amount of late payment interest.

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

Find out more about student loans at [www.ird.govt.nz](http://www.ird.govt.nz) (keywords: student loans).

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Registering for ir-File is easy. You just need a myIR secure online services account.

For more information, go to [www.ird.govt.nz](http://www.ird.govt.nz) (keyword: ir-File).

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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, by credit or debit card, by posting a cheque, or using the drop box at Inland Revenue offices.

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Learn more about these choices at [www.ird.govt.nz](http://www.ird.govt.nz) (keywords: making payments).

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## 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.



## 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](http://www.ird.govt.nz) “Make a payment” and follow the onscreen instructions.

## Cheque payments

You can mail us a cheque at:

PO Box 39050  
Wellington Mail Centre  
Lower Hutt 5045

Include a preprinted payment slip from your statement, or write the following details on the back of the cheque:

- your name and address
- your IRD number
- what your payment is for
- the due date for payment
- the amount you’re paying.

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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 non-custodial 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, you're always better off to contact us before the due date. We can work with you to reduce the penalties.

## Paying off your tax in instalments

As long as you make the agreed payments under an instalment plan, 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 a plan 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 plan—as long as you keep to the plan.

Paying your tax by a plan also means we won't take further actions to collect the money you owe, including extra payments from your wages. An instalment plan 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 plan before the grace period ends, late payment penalties will stop as soon as you set up the plan. The only difference is that you won't see the penalties added until the grace period has ended.

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

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Setting up an instalment plan is easy. You can call us, send us a secure email through your myIR account or submit a proposal online at [www.ird.govt.nz](http://www.ird.govt.nz) (keyword: instalment).

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

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## Instalment plans for student loan repayments

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

But, 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 filing 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 filed 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 you don't have to pay 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

05/10 *Remission of penalties and interest* at [www.ird.govt.nz](http://www.ird.govt.nz) (keyword: SPS 05/10).

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# Terms we use

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employer monthly schedule	A form completed by employers to show how much money they've paid their employees or contractors, and the deductions they've made each month.
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 file your income tax return.
GST (goods and services tax)	A tax added to the sale price of most goods and services.
instalment plan	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 shortpaid 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 you don't have to pay the penalties or interest you've been charged.
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.
tax shortfall	A deficit or understatement of tax.

# How to contact Inland Revenue

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## How to get our forms and guides

You can view copies of all our forms and guides by going to [www.ird.govt.nz](http://www.ird.govt.nz) and selecting “Forms and guides”. You can also order copies by calling 0800 257 773.

## Need to talk to us?

You can call us on these numbers:

General tax, tax credits and refunds	0800 227 774
Employer enquiries	0800 377 772
General business tax	0800 377 774
Overdue returns and payments	0800 377 771

We’re here to take your call between 8 am and 8 pm Monday to Friday, and Saturday between 9 am and 1 pm (excluding child support calls). If you have an IRD number, remember to have it with you when you call.

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.

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

# Inland Revenue's services

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## myIR secure online services

Inland Revenue's 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 regular tweets on a range of tax and social policy matters, including our most recent media releases, due dates and consultations.

## *Business Tax Update*

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

## Language Line

Language Line is a phone-based interpreter service for Inland Revenue customers whose first or preferred language is not English. There are 44 languages available—see [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/s you feel most comfortable using. The service is free.

New Zealand Government