

Briefing note

Reference BN2026/229

Date 30/07/2026

To Revenue Advisor, Minister of Revenue – Angela Graham
Private Secretary, Minister of Revenue – Melissa Zhen

From Ella Yeatman

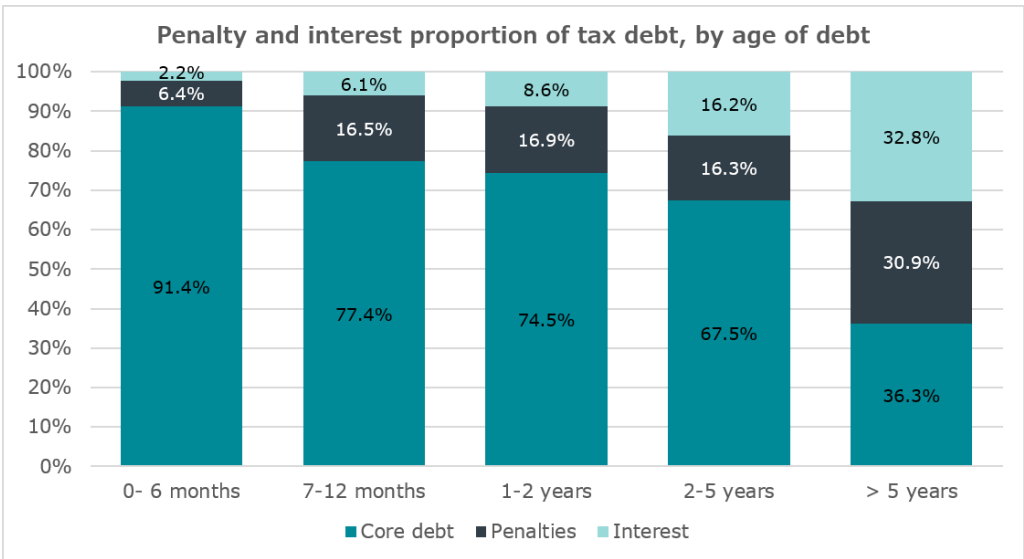
Subject **Penalties and interest on tax debt**

Purpose

- 1 This briefing note responds to the Minister of Revenue’s question about how penalties and interest apply to tax debts. s9(2)(f)(iv) It should be read alongside the briefing note on the treatment of uncollectible tax debt [BN2026/234].

Background

- 2 Penalties are part of the tax system to encourage compliance and are imposed when voluntary compliance has not occurred. Whereas interest compensates the Crown for not having the use of its money.
- 3 Penalties and interest stop being charged in specific situations, such as finalised insolvencies and (for penalties only) while a taxpayer is complying with an instalment arrangement. We can also waive penalties in a number of circumstances, such as for events beyond the taxpayer’s control.
- 4 Despite this, because penalties (mainly on employer deductions) and interest accumulate over time, they account for an increasing proportion of outstanding debt:



Penalties on tax debt

- 5 How penalties apply to outstanding debt depends on the type of tax debt. Generally, penalties can be split into two categories, late payment penalties and incremental penalties. The appendix provides a summary of the types of penalties charged across different tax types.

Late payment penalties

- 6 Taxpayers incur late payment penalties when they do not pay tax by the due date. Initial penalties are charged at 1% the day after the due date and a further 4% seven days after the due date.

Incremental penalties

- 7 Following late payment penalties, incremental penalties are charged monthly at 1% on fringe benefit tax debt and unpaid deductions made by employers on behalf of their employees, such as PAYE, ACC earners' levy, KiwiSaver employee contributions, employer superannuation contribution tax (ESCT), child support and student loan repayments. In recent years, the 1% incremental penalties have been removed from several tax types because they had begun to discourage taxpayers from engaging with Inland Revenue to resolve debt.¹
- 8 Employer deductions are also subject to additional penalties because of the serious nature of non-payment². These additional penalties range from 5% to 10% per month, depending on whether the taxpayer pays the overdue amount and/or enters into, and complies with, an instalment arrangement. This additional penalty stops once it reaches 150% of the unpaid amount to which the first penalty applied. This generally occurs 15 months after the first debt is incurred, after which the standard 1% incremental penalty applies.

s9(2)(f)(iv)

Interest on tax debt

- 12 Interest on tax debt compensates the Crown for the taxpayer's use of money that should have been paid as tax and discourages taxpayers from using Inland Revenue as a cheap source of finance or a savings account. It is charged on the outstanding

¹ Incremental penalties were removed from GST from March 2017 and income tax and Working for Families debt from the 2018 income year onwards. Incremental penalties were also removed from child support debt from 1 April 2021 onwards.

² Employer deductions are payments held on trust for the Crown and should not be used to fund a business's operations.

s9(2)(f)(iv)

amount payable, including any penalties. Interest does not compound but continues to be charged until the debt is paid in full, including any accrued interest and penalties.

- 13 Generally, interest applies where tax debt is underpaid by more than \$100. The current interest rate is 8.97% from 16 January 2026. There are very limited circumstances in which interest can be waived.

s9(2)(f)(iv)

Appendix 1

Penalties charged on tax types

Tax Type	Initial penalty	Incremental penalty per month	Cap on penalties
Income Tax/Provisional Tax	1% day after due date and 4% 7 days after due date	None	None
Employer deductions (Standard charges)	1% day after due date and 4% 7 days after due date	1% each month after due date.	None
Employer deductions (Additional penalties in addition to standard penalties)		5% if amount is paid or an instalment arrangement is entered into within 1 month of penalty date ⁴ or 10% if amount is not paid, taxpayer fails to enter and/or comply with instalment arrangement.	150% of original debt
FBT	1% day after due date and 4% 7 days after due date	1% each month after due date	None
GST	1% day after due date and 4% 7 days after due date	None	None
WFF overpayments	1% day after due date and 4% 7 days after due date	None	None
FamilyBoost overpayments	None	None	None
Child support	2% day after due date and 8% 28 days after the due date on any outstanding balance.	None	None

⁴ Penalty date is the date that the Commissioner advises the taxpayer a penalty will be payable.