

Managing tax debt

If you run into debt with your tax, you have options, but it is important to do **something**. Interest charges and penalties accrue from the date the payment is due until full payment is made. If you contact Inland Revenue early and they know you are taking steps to address the debt, they may put a hold on future penalties for late payment which may also be charged. Whereas if you do nothing, interest and penalties can multiply your original tax bill.

It is actually possible to double or triple your tax bill, just by hoping it would go away or not knowing what to do about it.

Penalties

If you fail to meet your tax obligations, you are liable for a range of penalties, depending on how serious the default and what kind it is.

For the purposes of late filed returns or overdue tax payments, the kinds of likely penalties are:

- late filing penalties
- late payment penalties
- non-payment penalties

Late filing

The law requires you to file your tax returns by their due dates. If you don't, you may have to pay a late filing penalty. This penalty is a one-off charge of \$50 to \$500 per return.

Late payment

As the name suggests, late payment penalties (LPP) come into play if you don't pay your tax by the due date.

From the table below, you can see how LPP can snowball over time.

Late payment penalties	How much	When charged	Calculated on
initial	1%	day after due date	Tax owed
	4%	at end of 7 th day after due date	Tax + penalties owed
monthly*	1%	each month	Tax + penalties owed

* Note that from 1 April 2017 the 1% monthly incremental late payment penalty is no longer charged on:

- GST debts
- Income tax
- Working for Families Tax Credits overpayments

Non-payment

Where the non-payment or late payment is in respect of PAYE, Inland Revenue may also charge a non-payment penalty. This penalty is 10% of tax owed and an additional 10% is charged each month up to a total of 15 months (i.e. a 150% penalty).

Interest

Inland Revenue will charge interest on whatever tax and penalties are owing, calculated:

- from the date after your tax payment is due
- on a daily basis on the amount of underpaid tax, including accumulated penalties and shortfall penalties (however, it does not compound)

The current interest rate is 7.0%.

When you start to pay off a tax debt, Inland Revenue will use the payments to clear any unpaid interest first of all. Provisional tax payments are an exception to this, as you can specify which provisional tax instalment the payment should be used for.

Another exception is that for provisional taxpayers using the standard uplift method, interest will only be payable on the third instalment.

What can I do?

Take action as soon as you can. Contact us to discuss your options to manage the situation.