Application of shortfall penalties under the Tax Administration Act 1994 for the year ended 30 June 2025

Executive summary

1 This report outlines the application of shortfall penalties for the year ended 30 June 2025, as required under the Tax Administration Act 1994.

2 Under section 141L of the Tax Administration Act 1994, the Commissioner of Inland Revenue is required to report to the Minister of Finance on the shortfall penalties provided for in sections 141A to 141EB of the Tax Administration Act 1994 that have been applied in the previous financial year.

3 Sections 141A to 141EB are referred to as the "shortfall penalty rules". These rules were designed to promote fairer enforcement of the Inland Revenue Acts[1] . Inland Revenue makes reference to the compliance and penalties rules in all relevant services provided.

4 The Minister of Finance is required, as soon as practicable, to lay a copy of the report before the House of Representatives.

5 The Tax Administration Act 1994 sets out taxpayers' obligations and the shortfall penalties that apply if these obligations are not met. The penalties have progressive levels of severity depending on the nature of the breach, and are consistently applied across most taxes and duties, except child support repayments by liable parents. A shortfall penalty is imposed as a fixed percentage of a tax shortfall identified from an Inland Revenue audit or investigation, or by voluntary disclosure on the part of the taxpayer.

6 A 'tax shortfall' is the difference between the position a taxpayer takes in their return and their final tax liability calculated under tax legislation. A shortfall penalty is not imposed in the majority of cases involving a tax shortfall, as the required standard of behaviour has not been breached.

7 The Tax Administration Act 1994 identifies six categories of fault or breach that are liable for shortfall penalties:

- Not taking reasonable care (section 141A);
- Unacceptable tax position (section 141B);
- Gross carelessness (section 141C);
- Abusive tax position (section 141D);
- Evasion or similar act (section 141E); and
- Promoter (section 141EB).

8 For some tax shortfalls the Tax Administration Act 1994 allows penalty reductions of 100% where certain criteria are satisfied. To receive the 100% reduction, the tax shortfall must arise from the taxpayer not taking reasonable care or taking an unacceptable tax position and the taxpayer must have made a voluntary disclosure before notification of an audit or investigation.

[1] The Inland Revenue Acts are defined in schedule 1 of the Tax Administration Act 1994 and includes the Child Support Act 1991, Goods and Services Tax Act 1985, Income Tax Act 2007 KiwiSaver Act 2006, Student Loan Scheme Act 2011 and the Unclaimed Money Act 1971 among others.

Summary of shortfall penalties for 2025 compared to 2024

9 The value of shortfall penalties payable increased to $16.5 million for the year ended 30 June 2025 (2024 - $15.5 million), and the number of shortfall penalties payable increased from 2,392 in 2024, to 4,607 in 2025.

Recommendations

We recommend that you:

1. **Note** the contents of this report.	
Noted	Noted
2. **Lay** a copy of this report before the House of Representatives as required by section 141L of the Tax Administration Act 1994.	
Laid	

Lisa Barrett
Deputy Commissioner of Inland Revenue
2 June 2026

Hon Nicola Willis
Minister of Finance
22/ 06 /2026

Hon Simon Watts
Minister of Revenue
/ /2026

Appendix

Background

1. The shortfall penalty rules in the Tax Administration Act 1994[2] came into effect on 1 April 1997. The rules are designed to promote effective and fair enforcement of the Inland Revenue Acts.

2. Inland Revenue is required to report annually to the Minister of Finance on shortfall penalties that have been applied in the previous financial year[3]. The Minister of Finance is required to lay a copy of the report before the House of Representatives, as soon as practicable.

3. Shortfall penalties apply to most taxes and duties, except child support payments. Shortfall penalties are imposed under sections 141A to 141EB of the Tax Administration Act 1994. These sections set out six categories of fault or breach, with a specified penalty rate for each category. The penalties increase in proportion to the seriousness of the breach. Under certain circumstances, shortfall penalties may be adjusted either by being reduced or increased.

4. In the majority of cases involving a tax shortfall a shortfall penalty is not imposed, as a required standard of behaviour has not been breached.

Table 1: Penalties applied depending on the seriousness of the breach

Shortfall penalty categories	Standard penalty (% of tax shortfall)	Section of the Tax Administration Act 1994
Not taking reasonable care (NTRC)	20%	141A
Unacceptable tax position (UTP)	20%	141B
Gross carelessness	40%	141C
Abusive tax position	100%	141D
Evasion or similar act	150%	141E
Promoter	100%	141EB

5. This report outlines the penalties and the tax types that were imposed during the 2025 financial year. It also provides comparisons with the previous year.

Value of penalties

6. The value of penalties payable has increased from the year ended 30 June 2024 by $981,823. As shown in Table 2, the increase is primarily in the gross carelessness category, offset by reductions in the abusive tax position and evasion categories.

7. The increase in gross carelessness can be linked to the increased volume of impositions rather than any penalties of material value. The reduction evidenced in the abusive tax position and evasion categories are attributable to the lack of any penalties with high values applied this year.

[2] See sections 141A to 141EB of the Tax Administration Act 1994.

[3] See section 141L of the Tax Administration Act 1994.

8. The number of shortfall penalties payable during 2025 increased by 2,215, which is reflective of our increased compliance activities throughout the year.

9. The type of work undertaken tends to inform the penalties considered and applied. The compliance activities associated with gross carelessness generally look at a broad range of risk elements and continue to be where Inland Revenue is investing the most effort.

Table 2: The category, number and value of shortfall penalties payable for the years ended 30 June 2024 and 2025[4]

Category of shortfall penalty	2024			2025		
	Amount payable	Number	% of total No.	Amount payable	Number	% of total No.
Not taking reasonable care	$553,370	541	22.6%	$926,745	848	18.4%
Unacceptable tax position	$626,294	29	1.2%	$457,243	24	0.5%
Gross carelessness	$3,425,955	1,190	49.8%	$8,951,103	2,639	57.3%
Abusive tax position	$2,852,390	7	0.3%	$155,587	28	0.6%
Evasion or similar act	$8,019,473	625	26.1%	$5,968,628	1,068	23.2%
Promoter	$0	0	0.0%	$0	0	0.0%
TOTAL	**$15,477,482**	**2,392**	**100%**	**$16,459,306**	**4,607**	**100%**

Revenue type, value and number of shortfall penalties payable

10. Table 3 sets out a comparison of the revenue type, value and number of impositions where shortfall penalties were payable.

11. There has been an increase in the value of shortfall penalties payable for GST and PAYE, offset by a decrease for Income tax.

12. This is supported by an increase in the number of penalties applied across all revenues seen in Table 3, with the penalties applied this year of lesser values when compared to last year.

13. The amount payable is directly related to the value of the reassessment made and the penalty applied. The increase in the number of impositions indicate the reassessments being made are of lower value when compared to the 2024 year.

[4] The values outlined in tables 2 and 3 are the net penalties applied during the current year (after increases/reductions as outlined in table 4). These penalties may be reduced in subsequent years.

Table 3: The revenue type, number and value of shortfall penalties payable for the years ended 30 June 2024 and 2025

Revenue Type	2024			2025		
	Amount payable	Number	% of Total No.	Amount payable	Number	% of Total No.
GST	$6,979,908	1,581	66.1%	$7,962,399	2,827	61.4%
Income tax	$8,387,355	640	26.7%	$7,930,927	1,114	24.2%
PAYE	$55,486	119	5.0%	$421,884	540	11.7%
Other	$54,733	52	2.2%	$144,096	126	2.7%
TOTAL	**$15,477,482**	**2,392**	**100%**	**$16,459,306**	**4,607**	**100%**

Adjustments to shortfall penalties

14. A shortfall penalty can be reduced if a taxpayer makes a voluntary disclosure to Inland Revenue either before they are notified of a pending tax audit or investigation, or before Inland Revenue commences the audit or investigation.

15. If a taxpayer makes a voluntary disclosure before they are notified of a pending audit or investigation, shortfall penalties can be reduced depending on the category of the tax shortfall.[5] If the shortfall penalty is being imposed in the categories of not taking reasonable care or taking an unacceptable tax position, shortfall penalties can be reduced by 100%. For shortfalls in the gross carelessness, abusive tax position and evasion categories, any shortfall penalties can be reduced by 75%. If a disclosure is made after the taxpayer is notified of an audit but before the audit begins, shortfall penalties can be reduced by 40%.

16. Shortfall penalties can be reduced by a further 75% if the tax shortfall is a temporary shortfall or the taxpayer discloses an unacceptable tax position at the time the tax position is taken.[6]

17. Shortfall penalties can be increased by 25% if the taxpayer obstructs Inland Revenue in determining the correct tax position.[7]

18. Table 4 sets out the shortfall penalties that have been reduced or increased as a result of voluntary disclosures, timing or obstruction.

19. In the 2025 year, the value of reductions increased by $7,642,186.

20. The increase was seen predominantly in the value associated with the 100% reduction of not taking reasonable care for voluntary disclosure before notification of audit, along with 100% reduction of unacceptable tax position for voluntary disclosure before notification of audit and 75% reduction for voluntary disclosure before notification of audit. This was partially offset by the decrease in the 75% reduction for timing of temporary shortfall.

[5] See section 141G of the Tax Administration Act 1994.

[6] See sections 141H and 141I of the Tax Administration Act 1994.

[7] See section 141K of the Tax Administration Act 1994.

21. One taxpayer with one period accounted for $3.8 million and one taxpayer with three periods accounted for $1.3 million of the 100% reduction of not taking reasonable care for voluntary disclosures before notification of audit.

22. The increase in compliance activities includes those under audit. This is evidenced in Table 4 and the growth in the number where a 40% reduction has been applied for voluntary disclosure post notification of audit.

23. There were no instances in the 2025 year where the 25% increase for obstruction were applied.

Table 4: Types of adjustments made to shortfall penalties for the years ended 30 June 2024 and 2025

Types of adjustments made to shortfall penalties		2024			2025		
		No.	Amount payable	Total value of reductions	No.	Amount payable	Total value of reductions
-100%	Reduction of Not taking reasonable care for voluntary disclosure - before notification of audit	3,624	$0	($33,748,942)	3,893	$0	($41,501,989)
-100%	Reduction of Unacceptable tax position for voluntary disclosure - before notification of audit	218	$0	($4,594,630)	237	$0	($6,189,467)
-75%	Reduction for voluntary disclosure - before notification of audit	516	$1,294,320	($3,882,960)	682	$1,658,771	($4,976,314)
-75%	Reduction for disclosure of Unacceptable tax position at time of filing	0	$0	$0	1	$3,130	($9,389)
-40%	Reduction for voluntary disclosure - post notification of audit	184	$946,731	($631,154)	558	$1,641,362	($1,094,241)
-75%	Reduction for timing of temporary shortfall	4	$1,249,857	($3,749,573)	14	$159,348	($478,045)
-75%	Reduction of Abusive tax position at time of filing	0	$0	$0	0	$0	$0
25%	Increase for obstruction	0	$0	$0	0	$0	$0
TOTAL		4,546	$3,490,908	($46,607,259)	5,385	$3,462,611	($54,249,445)

24. Shortfall penalties can also be reduced by 50% to take into account the previous compliance behaviour of a taxpayer.[8]

25. In the 2025 year, 98.5% of impositions met the criteria for a 50% reduction. This percentage was comparable with 2024 (98.7%).

26. The number of penalties qualifying for a reduction increased by 2,175, and the value of reductions increased by $31,991.

Table 5: Number of impositions and value where 50% reductions for previous behaviour allowed for the years ended 30 June 2024 and 2025

Category of shortfall penalty	2024				2025			
	Number	Volume where 50% reduction applied	% given 50% reduction	Value of 50% reductions	Number	Volume where 50% reduction applied	% given 50% reduction	Value of 50% reductions
Not taking reasonable care	541	535	98.9%	($549,222)	848	838	98.8%	($916,628)
Unacceptable tax position	29	28	96.6%	($615,598)	24	24	100%	($457,243)
Gross carelessness	1,190	1,173	98.6%	($3,393,105)	2,639	2,595	98.3%	($8,002,665)
Abusive tax position	7	6	85.7%	($2,851,888)	28	28	100%	($155,587)
Evasion or similar act	625	620	99.2%	($8,007,079)	1,068	1,052	98.5%	($5,916,760)
Promoter	0	0	0.0%	$0	0	0	0.0%	$0
TOTAL	2,392	2,362	98.7%	($15,416,892)	4,607	4,537	98.5%	($15,448,883)

Consistency in approach

27. The structure of the shortfall penalty rules set out in the Tax Administration Act 1994 provides taxpayers with certainty about the consequences of their non-compliance. Inland Revenue can ensure that the penalties are applied consistently across all areas because they are set out clearly in the legislation.

28. Compliance and Penalties Consistency Committees were established in Inland Revenue in 1997 to provide management with assurance that shortfall penalties are applied correctly and consistently in accordance with the Tax Administration Act 1994.

29. Further, the internal IR National Compliance and Penalty Consistency Committee has an overall monitoring focus. It moderates a sample of all shortfall penalty decisions at a national level and discusses and resolves any issues identified. It provides input into the design of processes, best practice principles, future policy and provides training to improve the application of the compliance and penalties rules.

[8] See section 141FB of the Tax Administration Act 1994.