Te Kāwanatanga o Aotearoa
New Zealand Government

Inland Revenue
Te Tari Taake

Managing overdue tax debt

January to March 2025

How overdue tax debt is being managed

Why Inland Revenue is reporting on tax debt

New Zealand's tax debt was $9.3 billion at 31 March 2025.

In Budget 2024, $116 million was allocated to Inland Revenue to support debt collection and compliance. This new quarterly report tracks our activities and performance in collecting overdue tax debt.

What is tax debt?

The report covers tax debt administered by Inland Revenue (IR) that has become overdue, and debt owed relating to tax credits such as Working for Families and entitlements.[1]

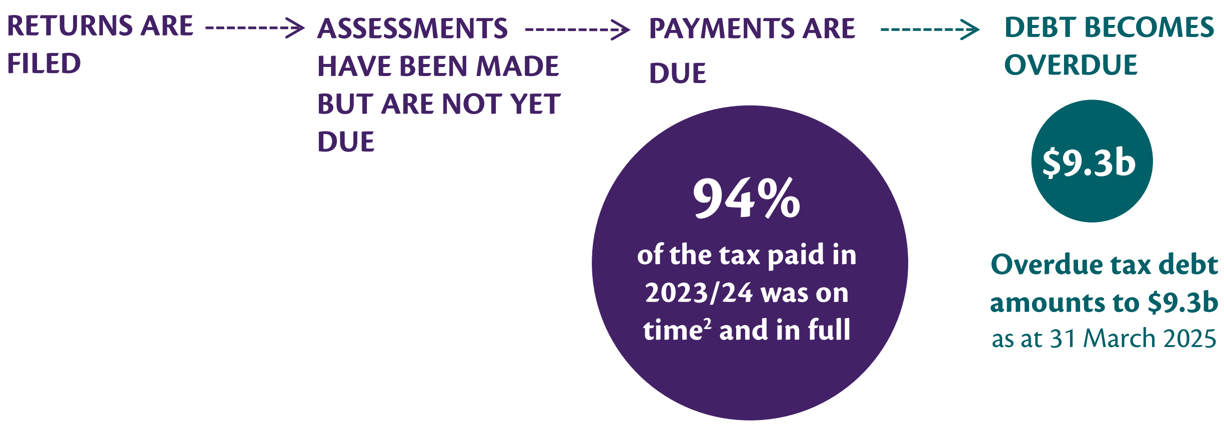
The figure on the next page shows the amount of overdue debt for each product at 31 March 2025. Collectively, these amounts make up the debt book, a point-in-time view of the overall amount owed by taxpayers. The debt book is continually changing as people incur new debt or pay it. The vast majority of taxpayers make their payments on time, resolve their debt quickly or set up a repayment plan.

Managing debt is part of IR's overall revenue approach

IR works to prevent customers from getting into debt and addressing it early so that customers pay it off quickly, which prevents debt from ageing and becoming less recoverable. This is part of our wider revenue approach, which ensures around 94% of tax is paid by customers on time.[2]

We'll continue to take this balanced, fit-for-purpose approach while also enhancing our debt management to further improve current practices and collection results, and prepare for future challenges. The aim is to keep maximising our existing tools and to identify new opportunities to improve such as more targeted and tailored collection approaches for different groups of customers and integrated forecasting across revenue, tax receipts, debt, write-offs and impairment.

As part of this, IR is beginning the roll-out of a new tool in June 2025, integrated in our main technology system, to enhance debt collection. The tool will provide decision support for IR staff, reducing manual effort in determining the collection option, and enabling consistent management and prioritisation of collection activities. We will also provide a more streamlined experience for certain customers to set up payment arrangements.



[1] It excludes debt related to other products that IR administers: Student Loans, Child Support and Small Business Cashflow Scheme loans.

[2] Within 7 days of the due date.

Why tax debt is increasing

While relatively low compared to the amount of tax paid on time by customers, tax debt has increased. The older a debt becomes, the more difficult it is to collect, and the more it costs the government in impairment, making it a priority for us to prevent debt from ageing.

IR also manages non-collectable debt, for example as a result of liquidation activity, deceased customers or bankruptcy.

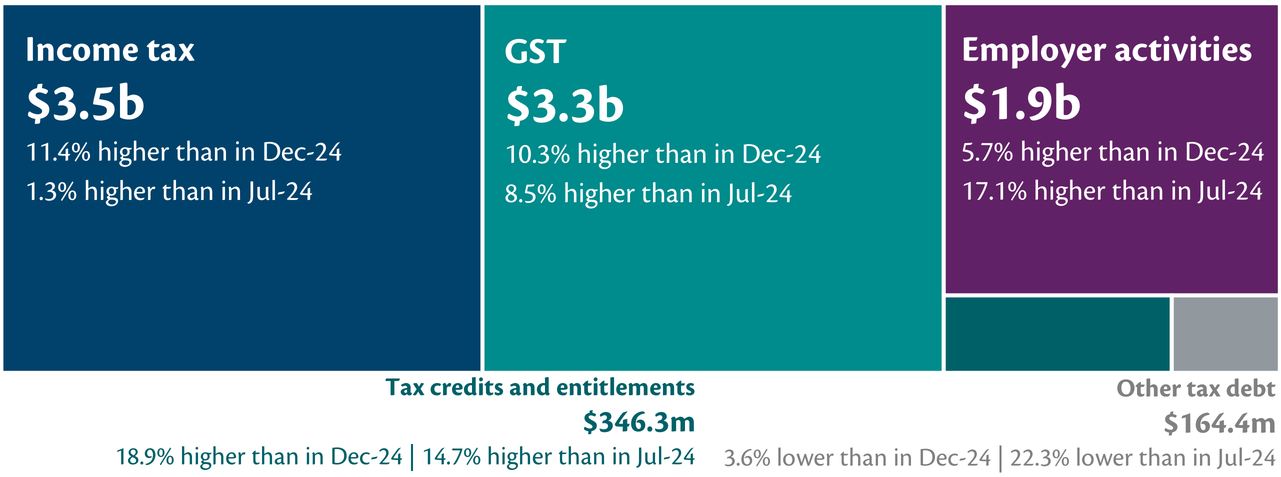
Recent growth in tax debt is mainly due to the economic weakness of the past few years persisting longer than anticipated and due to our updating the definition of when tax debt becomes overdue. Tax debt is now reported as overdue straight after the due date rather than previously, when it was linked to actions to collect the debt (this can begin up to 25 days later). The updated definition resulted in $453.5 million more being classified as overdue tax debt in July 2024 when the redefinition was first applied. There were also other changes in the definition in the 2023/24 year; see page 23 of IR's 2024 Annual Report for more information.

Another factor increasing overdue tax debt is the challenging economic environment for businesses in the past few years. The breakdown of tax debt by tax type below shows growth in GST and employer-related debt. This is particularly prevalent amongst smaller businesses.

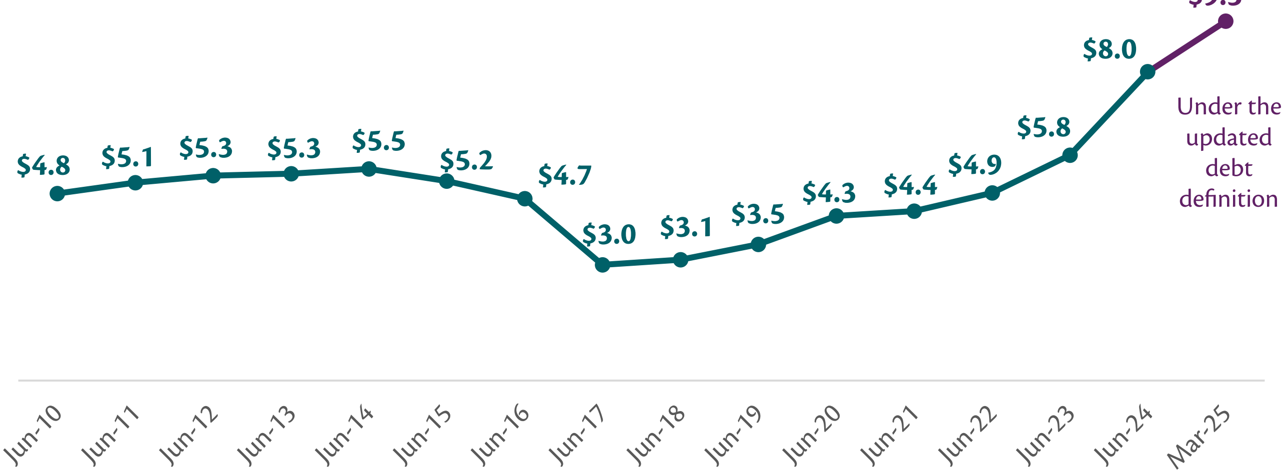
Debt trends follow typical patterns across a year and differ across products. For example, income tax has increased this quarter compared to December 2024 as the major payment due date of 7 February has now passed. Similarly, there isn't a due date for GST in December (it's on 15 January) so GST debt as at 31 December is usually lower.

Trends over time are also impacted by GST due dates, which are at the end of each month. Where these fall on a public holiday or weekend, payments may become overdue in the following calendar month. Income tax debt levels see volatility between February and July as key filing and payment dates occur.

TAX, CREDITS AND ENTITLEMENTS DEBT BY TAX TYPE AS AT 31 MARCH 2025



ANNUAL DEBT FIGURES AS AT 31 MARCH 2025 AND 30 JUNE ($BILLION)



Key results

IR is on track to meet an annual target of collecting $4.08 billion in debt, with $2.99 billion collected in the year-to-date March 2025.

As a part of a wider package to carry out more compliance activities, **$6 million in additional funding was invested** in Budget 2024 to increase the amount of overdue tax collected.

Results for resolving new customer debt and preventing debt from ageing (on the next page) indicate we are helping people pay debt quickly or set up sustainable repayment plans.

IR is running more debt payment campaigns, including a continued focus on GST and employer debt. In the year to date, $1.296 billion in GST debt has been collected, and IR is receiving approximately $87 million a month through repayment plans set up with customers.

Building IR staff expertise in debt collection is an ongoing focus. It requires a range of skills, with IR people needing to be firm but empathetic and persistent in reaching solutions, including investigating the actions of customers with significant histories of non-compliance and taking action until payments are made.

IR's high-risk debt team specialises in debt recovery and litigation. Since its inception in March 2022, the 43-strong team has been taking a targeted 1:1 approach with customers who are trading with significant unpaid GST and employer activities debts by applying a legal nudge approach to drive compliance. **The team is currently averaging $3.1 million in weekly cash collection, $113 million in the year to date.** As at 31 March, the team has worked on 6,900 high risk customers, addressing $2 billion in overdue tax debt over three years. Around 50% of these cases—which equate to $1.16 billion—have now been closed, with customers either resolving their debt or customers now under liquidation or bankruptcy.

Improving the performance of customer debt repayment plans is a focus as these plans allow customers to break their tax into smaller manageable amounts**. The customer adherence rate for plans set up from July 2024 to the end of March 2025 is 64.7%.** Work is underway to better help customers get back on track with payments and improve the ease of setting up self-service repayment plans to reduce costs for IR and customers.

As of 31 March, 9,680 customers have an active S-157 notice. This legislative measure requires third parties such as banks to make payments to IR from any funds owed to a customer who is in default with us. Compliance efforts are intensifying, with S-157 notices on wages and bank accounts being used as a last resort when customers fail to respond to calls and letters. As a result, we expect to see an increase in S-157s being issued. Typically, customers react to S-157 deductions by negotiating alternative arrangements for their debts.

IR-initiated liquidations this quarter (134) were up by 68% compared to the same period last year.

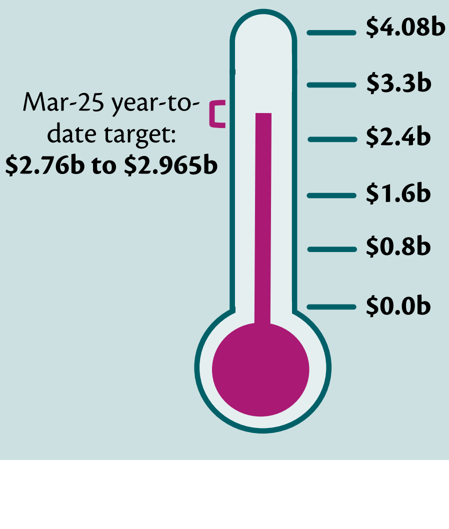
Debt can be written off under some circumstances, within the overall aim of maximising revenue over time. **IR has written off $553.1 million of debt so far this year, compared to $395.8 million in the same period last year (excludes COVID-19 remissions).** This is in line with increased compliance and debt collection activity, which identified more debt in need of being written off.

The number of **prosecutions initiated this quarter (11) is more than double that of last year.**

$2.99b

in cash has been collected from debt activity in the year-to-date Mar-25 against a full-year target of $4.08b

This amount is $300m ahead of the cash collected in the year-to-date Mar-25



GST is the main source of cash collected in the year-to-date Mar-25:
$1,296m

Employers
$558m

Individuals Income Tax
$530m

Income tax – non-individuals
$470m

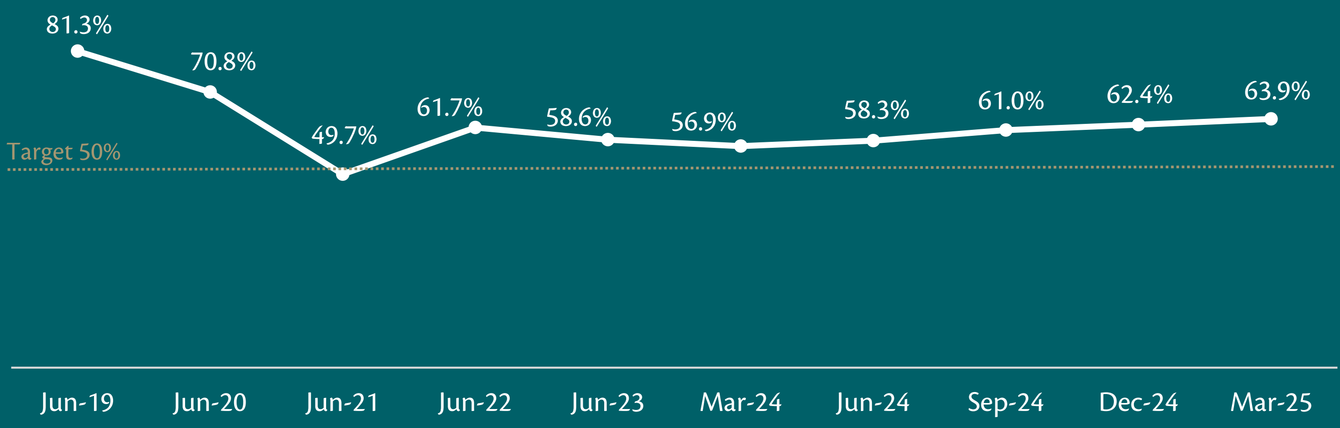
Results from quarter to quarter

63.9%

of customers with new debt have had it resolved within six months in the year-to-date Mar-25, indicating we are helping customers newly in debt to pay their tax.

Measure: new customer debt resolved within six months

Target: 50%

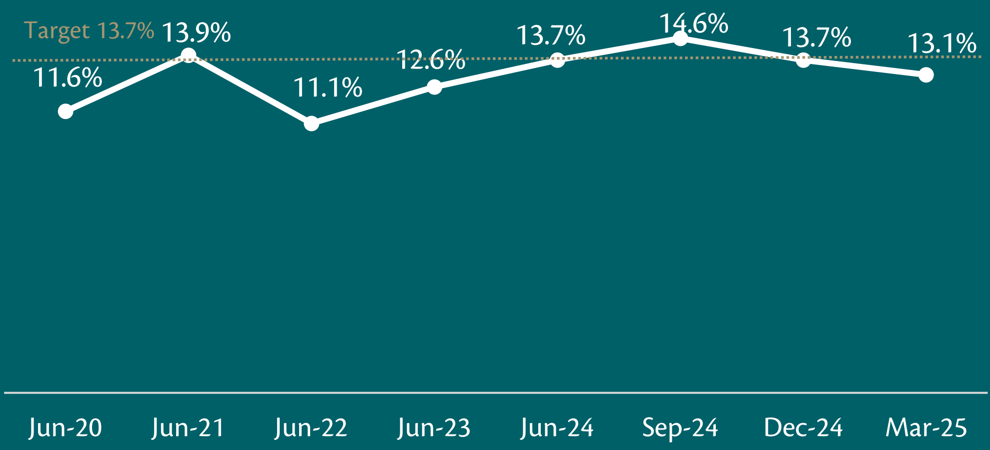


13.1%

of tax debt has an active repayment plan in place as at 31 Mar-25 (19.9% of collectable tax debt). Payment due dates in February and March saw a substantial amount of GST and income tax debt become overdue but also a drop in the amount of these products that is under a plan.

Measure: tax debt value under an active repayment plan

Target: 13.7%



ABOUT THE DATA IN THIS REPORT

- Non-collectable debt refers to any debt that is currently unlikely to be recovered, including situations where customers are under insolvency administration (such as liquidation or bankruptcy proceedings), where the debt is under dispute or pending a legal determination, or if the customer is deceased.
- We take a conservative approach to defining what repayment plans are considered 'active': no payments must have been missed for a plan to be considered so.
- Note: debt figures are subject to audit at the end of the financial year and are not considered final until signoff and publication of IR's Annual Report.
- We publish data on overdue tax debt at Overdue tax debt statistics. You can read analysis on annual trends and performance in debt management in IR's Annual Report published at Annual Report. The 2025 Annual Report will be available online in mid-October 2025.