



**Inland Revenue**  
Te Tari Taake

# Tax agent webinar on debt

Presenters: Sarah Bourke and Tony Morris

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You play an important role in helping people meet their tax obligations. The relationship we have with you is a key reason our tax system works well, with less conflict than we see in some other countries.

You'll know we've focused hard on debt collection over the past year. Tax debt is a problem. It's growing steadily and is over nine billion dollars. That's a lot of money that should be being spent on public services, which includes things vital to thriving business, like New Zealand's infrastructure and the justice system. Where some people don't pay their taxes, it just means others have to pay more, which erodes the country's sense of fairness and leads to less willingness to contribute to society.

Debt is a big focus for our Minister, and you'll know we've received more money to focus on enforcement. A lot of that goes into audits, but some also goes into debt collection. I doubt this is a surprise given the amount of media coverage, particularly on businesses being liquidated with large amounts of tax debt.

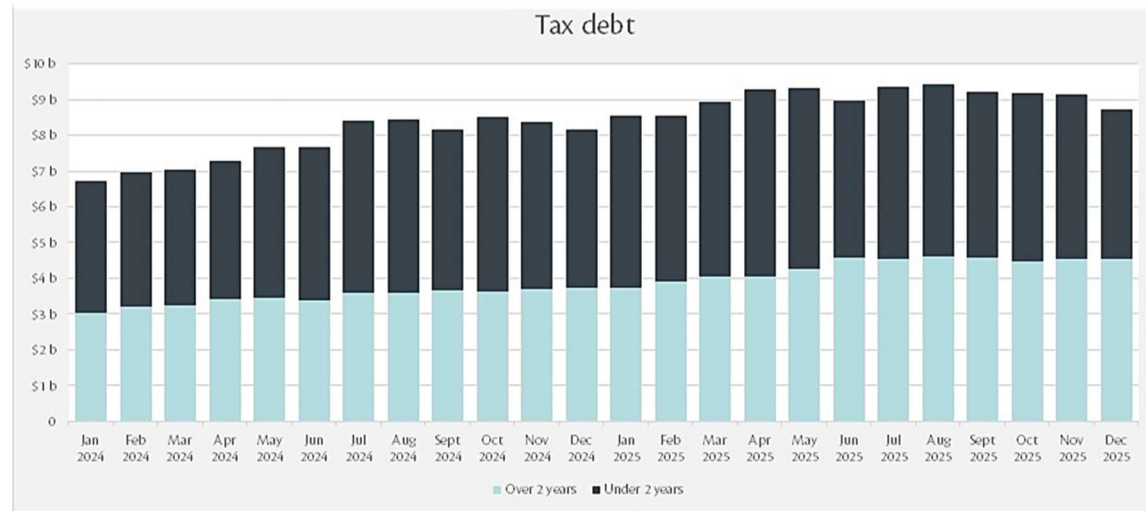
And we've heard from tax agents there are two things you want more clarity on. First: what's the overall approach? You're seeing a lot of activity—how does it all tie together? Second: how do we make sure similar taxpayers get similar outcomes when they ask for relief? We've heard concerns that two clients can look very similar, but one gets relief and the other doesn't—and it's not clear why.

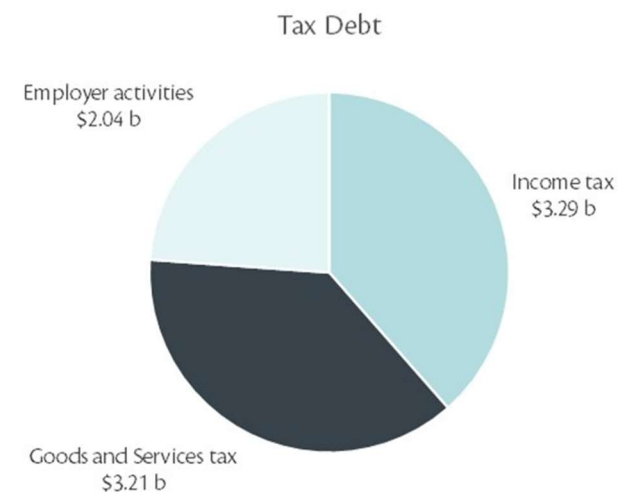
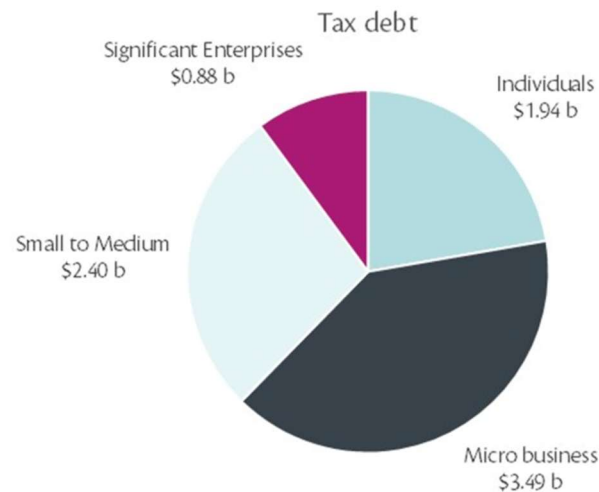
First, a brief update on where tax debt sits right now. All data we're presenting today is through to the end of December. Our quarter to March results haven't been published yet.

On screen you can see tax debt rising gradually over the past two years. Over the last nine months, we've managed to hold it steady—and even bring it down slightly. The main driver is a good drop in debt that's under two years old—the dark blue sections. That's intentional. The earlier we collect debt, the better.

At the same time, debt that's over two years old has kept growing. And as you know, penalties and interest keep adding up—so that pushes total debt up over time.

Looking ahead, we do expect total debt to keep rising this year as payment dates come due in the next few months.



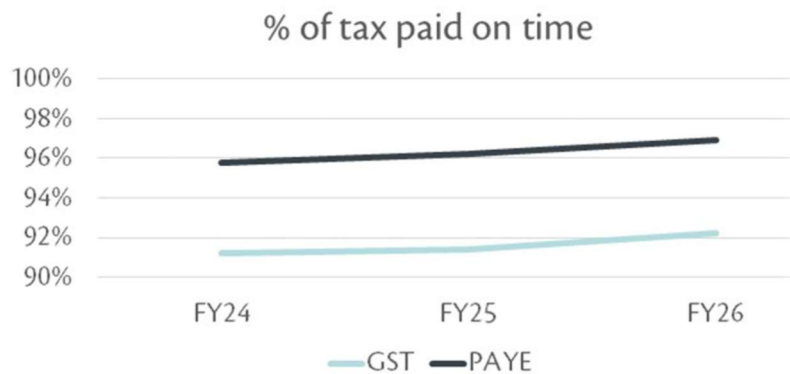


Two other things shape how we approach debt. First: most debt sits with sole traders and very small businesses. We don't usually see large debts in big businesses. And when we do, they're often cleared quickly. So in practice, we're dealing with tens of thousands of small debts.

The individuals segment is mostly IR3 filers, which includes a lot of sole traders, so also represents lots of little debts that needs collecting.

Second: most of it is PAYE and RWT, what we call employer activities on this slide, and GST. You probably saw our recent Revenue Alert about PAYE, and our concern with businesses holding onto it. Most business owners know this money isn't theirs to use, and they don't set out to hold on to it. So when it keeps happening, it often tells us there are ongoing cashflow problems. Our concern is that some small businesses may be trading when they're no longer viable—or even while insolvent. That isn't good for anyone.

## Encouraging payment on time



## Encouraging payment on time

**Inland Revenue NZ**  
2 October at 10:00

Run a business? There's no hiding from your obligation to file a tax return and pay any tax debts. Learn more at our website now.

**You can't hide your business from tax.**

1. It's your responsibility to complete and file your tax returns.
2. Avoid penalties and interest by paying your tax bill on time.
3. Got people working for you? You must register them, report and pay their PAYE.

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Visit us online now for advice on how to get your tax right.

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So the first part of our approach is prevention—helping people pay on time in the first place. And the good news is: 94% of tax is paid on time. That rate has been improving again this year. That gives us a strong base to build from.

On the communications side, we've been running reminders and digital ads. We ran a campaign late last year aimed at the construction sector. In total, over 400,000 customers saw those messages.

We're also looking at how to encourage more people to use tax agents. And we're encouraging tools that help people stay on top of their finances—like accounting software and integrated tills.

And we're working to close policy gaps that let some people build up large debts and avoid paying—like phoenixing.

Second, when debt does happen, we want to collect as much as we can quickly, and with as much automation as possible.

Our system now suggests the next best step to resolve debt for hundreds of thousands of customers. We review those recommendations. If they are appropriate, they get set up automatically. This has greatly increased how many interventions we can make.

A good example is pre-approved instalment arrangements. We tell people an arrangement is available. They click “accept” in myIR. And it’s set up.

In the last six months of last year, that led to over \$100 million being paid, or placed under arrangement. We’ve used the same approach to increase bank deductions, phone calls, and visits as well.

We also trialled using Baycorp to contact customers with simple, low-value debts - debts we wouldn’t otherwise get to. We only did that to customers without tax agents. It’s achieved a good return, and we’re now considering whether to continue.

## Collect it early, as easily as possible

### Automated recommendations

Intervention	Quantity	Debt repaid or under arrangement
Bank deductions completed	20,331	\$31m
Pre-approved instalment arrangements issued	48,934	\$117m
Phone calls	11,366	\$64m
Visits	1,142	\$12m



Third, we're increasing our activity for people who have ignored their debts for too long.

Our team that handles the highest-risk, more complex debt is actively managing about 2,000 cases—worth more than \$600 million. Around a quarter of these are in some stage of legal action.

Another team focuses on the worst cases of non-filing and non-payment, particularly of PAYE and GST. They currently have 24 prosecutions underway.

We are also trialling increased credit reporting. Late last year, we warned 60 companies. Since then, more than half have been reported—and more than half are now in liquidation proceedings.

We've also increased statutory demands for liquidation. Almost 1,000 were issued in the first half of this financial year. That's up on last year—and almost double FY24. We don't always recover much debt through credit reporting or liquidation. But we see this as part of our job: protecting viable businesses, and the wider tax base. So, with all of that going on, some of your clients may ask you to contact us to see if debt relief is available.

We always expect payment in full and on time where that is possible. But the law gives us some ability to provide debt relief. In the right circumstances we can accept instalment arrangements, remit penalties, and in some cases write off debt. But we can only do what the law allows. So we can't give relief just because we want to—our decisions have to fit the legislation.

We have a Standard Practice Statement that sets out the options for relief from tax debt. It explains when we can write off or remit debt, and what we must consider. You can find it on our website, and you may have seen we've released a new version for consultation. I won't cover every detail today—just a practical summary.

## Increased activity on harder debt cases

- Actively managing 2,000 cases worth more than \$600m
- 24 prosecutions underway for non-filing or non-payment
- 60 companies notified of intent to list their debt with credit agencies
- Almost 1,000 statutory demands issued in first half of financial year



Our preferred option is an instalment arrangement—paying over time. In most cases, you or your client can set this up online. If the timeframes are reasonable, and there are no other red flags, it will usually be accepted. If it isn't accepted, you can call us to negotiate. We'll always want the debt cleared as quickly as possible, but we can talk about what's realistic. However, we may also choose not to agree to an arrangement—especially if current taxes aren't being paid as they fall due.

We can write off debt due to serious financial hardship. In practice, this usually means if the debt were to be repaid in full the person could not meet basic living costs, or could not afford necessary medical treatment for themselves or their dependants. It does not mean missing out on a planned holiday, or a kitchen renovation. And it doesn't automatically apply just because someone might become bankrupt—sometimes bankruptcy is the best way to resolve the debt. Even then, we still have to recover as much as we can, as quickly as we can—up to the point where recovery would cause serious hardship.

And we can remit penalties when the late payment happened because of events outside the taxpayer's control—for example, illness around the time payment was due. This applies to penalties only, not core tax or interest.

Those three options are the relatively straightforward ones. Beyond that, decisions about relief depend on weighing up a large number of factors. We can write off debt if we believe it can't be recovered, or if pursuing it would not be a good use of resources. And we can remit penalties if we believe it will support voluntary compliance, or deliver the best net revenue over time.

## Debt relief

### Main types of relief that can be applied for

Grounds for relief	Form of relief
Unable to make immediate payment	Instalment arrangement
Serious hardship	Write-off
Events beyond the taxpayers control	Remission of penalties
Promote compliance and collect the highest net revenue	Remission of penalties / interest
Unrecoverable amount	Write-off
Inefficient use of Commissioner's resources	Write-off
Declared emergency event	Remission of interest

So when we're deciding whether relief is appropriate—and what type—we look at a few key things. We look at the taxpayer's financial position. We look at why they didn't pay, their compliance history, and how cooperative they are in providing information. We look at whether they've taken steps to stop the problem happening again. And we consider our resources, and whether the decision would look unfair to other taxpayers.

At the end of the day, it's a judgement call based on that customer's circumstances. And I know you won't agree with every decision we make.

Sometimes it will feel like two clients look similar, but one gets relief and the other doesn't. We put a lot of effort into training, guidance, and case studies for our staff. And decisions are often discussed with peers, or reviewed by another staff member. But we have heard your concerns, and we're looking closely at what more we can do to improve consistency.

These are often borderline calls. They rely on people applying judgement to the facts in front of them. So there will always be some variation—and we don't see AI taking this over any time soon!

One other point: our objectives may be different from yours. You're acting in the best interests of your client—and we understand that. But we have to act in the best interests of the tax system overall.

And sometimes things look similar at first, but they're genuinely different once you look closer—so they should get different outcomes.

## Debt relief

### What we will consider

Taxpayer's financial position

Integrity of the tax system

Resources available to the Commissioner

Importance of promoting compliance

Taxpayer's reasons for failure to pay

Taxpayer's compliance history

Taxpayer's cooperation

Steps taken to avoid similar situation

To illustrate this, I'll share three real restaurant cases. Each had more than \$100,000 of debt, but they ended with very different outcomes.

Case one: a family-run business. The Director had health issues, and things weren't kept on top of. Some GST and income tax payments were missed a few years earlier, and the debt grew quickly.

When other family members realised how serious it was, they replaced the Director. Through their accountant, they then worked with us constructively. Because of the previous Director's health issues—and because they were keeping current tax up to date—we agreed to remit the penalties, as long as they stuck to a realistic plan to pay the core debt and interest. The family sold some assets and made a lump-sum payment. Then they set up a realistic instalment arrangement for the remaining debt. If they stick to that plan, the late payment penalties will be remitted.

Case two: when we made contact, the owner did intend to pay the debt back. They made some payments and set up an instalment arrangement, but couldn't keep to it. We said we were likely to start liquidation. The owner asked for time to sell the business.

We could see the sale was genuine. There was a sales and purchase agreement. A solicitor was involved. The business was listed, with at least one interested buyer. So we agreed to hold off on liquidation. The sale didn't raise enough to pay all the tax debt. But we wrote off the remaining amount rather than pursue it through the Director. At that point there was no ongoing risk to the tax base, and it was unlikely we would collect more.

Case three: a large amount of PAYE debt was involved. The restaurant asked for an instalment arrangement, but they couldn't show a way to pay the debt within a reasonable time. We advised the directors to consider closing the business. They didn't want to let down their staff or community, so they kept trading for several months—and the debt grew significantly. We decided to liquidate the business, and we're now seeking to recover the debt from the owners' assets.

## Debt relief

### Three restaurant businesses, each with more than \$100k of tax debt

Case study 1 => Remission of penalties

Case study 2 => Write-off of remaining debt

Case study 3 => No financial relief



From the outside, the third business might feel this is unfair. We gave relief to other restaurants, but not to them.

But while the high-level facts looked similar, the underlying facts were different. And based on those facts, we believe all three outcomes were appropriate.

To wrap up, I hope this has given you a clearer picture of why we're focused on debt, what we're doing about it, and how we think about requests for debt relief.

We appreciate the work you do. You support clients when business is going well, and you also help them recognise when a business may no longer be viable or may be insolvent. Identifying issues early, before debt becomes a long-term burden, matters.