



**EXPOSURE DRAFT - FOR COMMENT AND DISCUSSION ONLY | HUKIHUKI HURANGA
- MŌ TE TĀKUPU ME TE MATAPAKI ANAKE**

Deadline for comment | Aukatinga mō te tākupu: **31 October 2025**

Please quote reference | Whakahuatia te tohutoro: **PUB00500c**

Send feedback to | Tukuna mai ngā whakahokinga kōrero ki
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FACT SHEET | PUKA MEKA

Shortfall penalties – reductions and other matters

Issued | Tukuna: Issue Date

FS ##/##

This fact sheet accompanies **IS XX/XX: Shortfall penalties – reductions and other matters (PUB00500c)**. IS XX/XX explains when a shortfall penalty is reduced (or increased), what happens when a taxpayer could be liable for more than one penalty, and the assessment, payment and disputing of shortfall penalties.

All legislative references are to the Tax Administration Act 1994.

RELATED DOCUMENTS | TUHINGA WHAI PĀNGA

For an explanation of the legal tests for the shortfall penalties, and other matters relating to the shortfall penalties, see:

- **IS XX/XX: Shortfall penalties – requirements for a “tax position” and a “tax shortfall” (PUB00500b)**
- **IS XX/XX: Shortfall penalty for not taking reasonable care (PUB00498);**
- **IS XX/XX: Shortfall penalty for taking an unacceptable tax position (PUB00499);**
- **IS XX/XX: Shortfall penalty for gross carelessness (PUB00500a);**
- **IS XX/XX: Shortfall penalty for taking an abusive tax position; and**
- **IS XX/XX: Shortfall penalty for evasion or similar act.**

Reduction in penalties

1. In several situations the shortfall penalty payable by a taxpayer is reduced. The level of reduction ranges from 40% to 100%.
2. The level of reduction available depends on the type of shortfall penalty imposed and the behaviour and actions of the taxpayer. Table | Tūtohi 1 summarises the percentage reduction available for each reduction and penalty type.

Table | Tūtohi 1 - Percentage reduction for each reduction and penalty type

Reduction type	Reduction percentage for each penalty type				
	Not taking reasonable care	Unacceptable tax position	Gross carelessness	Abusive tax position	Evasion
Previous behaviour: s 141FB	50%	50%	50%	50%	50%
Pre-notification voluntary disclosure: s 141G	100%	100%	75%	75%	75%
Post-notification voluntary disclosure: s 141G	40%	40%	40%	40%	40%
Disclosure of tax position: s 141H	N/A	75%	N/A	75%	N/A
For a temporary shortfall: s 141I	75%	75%	75%	75%	75%

Previous behaviour

3. A shortfall penalty is reduced by 50% where a taxpayer has good past compliance (previous behaviour).¹ Broadly, to qualify for the reduction a taxpayer must not have been:
- convicted of certain specified offences contained in the Act; or
 - liable for an earlier shortfall penalty (generally, a penalty of the same type or more serious than the current shortfall penalty) within specified time periods, relating to the same tax type and not reduced for voluntary compliance.

Voluntary disclosure

4. A shortfall penalty may be reduced if the taxpayer tells the Commissioner all the details of the tax shortfall before the Commissioner finds out about the tax shortfall in some other way.²
5. Different levels of reduction are available for disclosures made before (pre-notification), or after (post-notification), the first notification of a pending audit or investigation.

Disclosure of a tax position

6. A shortfall penalty for taking an unacceptable or abusive tax position³ may be reduced by 75% if the taxpayer adequately discloses the tax position **at the time the tax position is taken** (not the disclosure of an incorrect tax position previously taken).⁴

Temporary shortfall

7. A shortfall penalty is reduced if and to the extent the tax shortfall has or will be permanently reversed or corrected within 4 years.⁵

¹ Section 141FB.

² Section 141G.

³ Sections 141B and 141D.

⁴ Section 141H.

⁵ Section 141I.

Limitation on reductions

8. Where a shortfall penalty qualifies for a reduction for a voluntary disclosure or disclosure of a tax position **and** temporary shortfall, the penalty is reduced once only.⁶
9. Sometimes more than one reduction type applies to a shortfall penalty imposed. Table | Tūtohi 2 sets out the percentage reduction that applies when a combination of reduction types applies to a shortfall penalty imposed.

Table | Tūtohi 2 - Percentage reduction for each reduction and penalty type - combination

Combination	Reduction percentage for each penalty type				
	Not taking reasonable care	Unacceptable tax position	Gross carelessness	Abusive tax position	Evasion
Voluntary disclosure (pre-notification): s 141G and Temporary shortfall: ss 141I and 141J	100%	100%	75%	75%	75%
Voluntary disclosure (post-notification): s 141G and Temporary shortfall: ss 141I and 141J	75%	75%	75%	75%	75%
Voluntary disclosure (pre-notification): s 141G and Previous behaviour: s 141FB	100%	100%	75% then 50%	75% then 50%	75% then 50%
Voluntary disclosure (post-notification): s 141G and Previous behaviour: s 141FB	40% then 50%	40% then 50%	40% then 50%	40% then 50%	40% then 50%

⁶ Section 141J.

Voluntary disclosure (pre-notification): s 141G and Temporary shortfall: ss 141I and 141J and Previous behaviour: s 141FB	100%	100%	75% then 50%	75% then 50%	75% then 50%
Voluntary disclosure (post-notification): s 141G and Temporary shortfall: ss 141I and 141J and Previous behaviour: s 141FB	75% then 50%	75% then 50%	75% then 50%	75% then 50%	75% then 50%
Temporary shortfall: s 141I and Previous behaviour: s 141FB	75% then 50%	75% then 50%	75% then 50%	75% then 50%	75% then 50%
Disclosure of a tax position: s 141H and Temporary shortfall: s 141I and Previous behaviour: s 141FB	N/A	75% then 50%	N/A	75% then 50%	N/A

Other matters

10. A shortfall penalty for not taking reasonable care⁷ or for taking an unacceptable tax position⁸ is capped at \$50,000 in certain circumstances.
11. A shortfall penalty can be increased by 25% if the taxpayer (not a third party such as a tax agent) obstructs the Commissioner in determining the correct tax position.⁹

⁷ Section 141A.

⁸ Section 141B.

⁹ Section 141K.



About this document | Mō tēnei tuhinga

Some of the Tax Counsel Office's longer or more complex items are accompanied by a fact sheet that summarises and explains an item's main points. While it summarises the Commissioner's considered views, a fact sheet should be read alongside the full item to completely understand the guidance. Fact sheets are not binding on the Commissioner. See further [Status of Commissioner's advice](#) (Commissioner's statement, Inland Revenue, December 2012).