

# Compensatory Interest and Late Payment Penalties (CILPP)

## » What is changing for you?

Customs is introducing a new system for charging compensatory (use of money) interest and late payment penalties to importers, exporters and excise licensees, when duty hasn't been paid in full at the right time.

The new system will replace the additional duty regime and is designed to be fairer and more transparent.

The new system will be based on Inland Revenue's use-of money and late payment penalties, and will apply in the same way to importers, exporters and excise licensees.

*Compensatory interest and late payment penalties are different:*

- » Compensatory interest compensates the Crown for loss of use of money, and applies whenever duty isn't paid in full, including when it wasn't assessed correctly, or on time.
- » Late payment penalties apply to late payments, and aim to encourage you to pay on time.

Importers will be charged interest for any shortfall payments. A shortfall payment is when you have under assessed the amount of duty or GST you have to pay.

Incorrectly claimed refunds/drawbacks will attract interest, where previously there was no additional duty charge.

You'll have clarity around situations when a refund or remission of interest and penalties could be granted.

## » When can the Compensatory Interest be applied?

You could be charged compensatory interest if you fail to pay all your duty at the right time for any reason. This could include not paying by the due date, providing incorrect information to Customs or not entering your goods.

You'll be charged interest from the day after the date on which the duty should have been paid, until your outstanding duty is paid in full.

In most cases you'll be charged an interest rate that is the same as the Inland Revenue use-of money interest rate for underpayments. However, in some cases, if you voluntarily disclose a shortfall payment to Customs, you may be eligible for a reduced interest rate.

If you claim a refund or drawback that you weren't entitled to, the interest period will start on the day you claimed the refund/drawback, and ends on the day you pay it back.



## ➤ When can the late payment penalties be applied?

Late payment penalties will apply to late payments, and aim to encourage you to pay on time.

*Late payment penalties will be calculated as follows:*

- » on the day after the due date, you'll be charged 1% of the amount you still owe,
- » on the eighth day after the due date, you'll be charged a further 4% of the amount you still owe.

No further late payment penalties will be charged after this, but any unpaid duty will continue to accrue compensatory interest until it is paid off in full.

If you haven't made any other late payments in the last two years Customs will remit your late payment penalties.

Within three working days of discovering your late payment, Customs will send you a reminder letter to encourage you to pay before the second penalty is applied (eight days after the due date) and an invoice issued.

## ➤ Application for a refund or remission

In future you'll know the situations when a refund or remission could be granted. Refunds and remissions are modelled on the Tax Administration Act (1994).

You'll be able to have late payment penalties remitted/refunded if you have a reasonable excuse for paying your duty late.

You'll also be able to have interest remitted/refunded if you have paid your duty late due to an emergency event, which must have been prescribed by an Order in Council.

In some exceptional circumstances, interest and penalties will also be remitted if it is consistent with the collection of the highest net revenue over time.

You'll be able to apply for an administrative review or appeal to the Customs Appeal Authority within 20 working days of receiving an invoice if you disagree with the penalty or interest.

## ➤ Want to know more?

For more information, you'll be able to refer to the Duty Payer Guide which will be available on the Customs website.