The Treasury

Budget 2026 Information Release

September 2026

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Key to sections of the Act under which information has been withheld:

[1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government

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[4] 6(c) - to avoid prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial

[7] 6(e)(ii) - to prevent serious damage to the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the regulation of banking or credit

[12] 7(a)(i) - to avoid prejudice to the security or defence of the self-governing State of the Cook Islands

[13] 7(a)(ii) - to avoid prejudice to the security or defence of the self-governing State of Niue

[14] 7(a)(iii) - to avoid prejudice to the security or defence of Tokelau

[15] 7(a)(iv) - to avoid prejudice to the security or defence of the Ross Dependency

[23] 9(2)(a) - to protect the privacy of natural persons, including deceased people

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[27] 9(2)(ba)(ii) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest

[31] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting collective and individual ministerial responsibility

[33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

[34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

[35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;

[36] 9(2)(h) - to maintain legal professional privilege

[37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice

[38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

[39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

[40] 18(c)(i) - that the making available of the information requested would be contrary to the provisions of a specified enactment

[41] 18(d) - information requested is or will soon be publicly available

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POLICY

Tax policy report: Improving taxation of shareholder loans, Cabinet paper and consultation paper

Date:	28 August 2025	**Priority:**	Medium
Security level:	BUDGET SENSITIVE	**Report number:**	IR2025/219 T2025/2117

Action sought

	Action sought	Deadline
Minister of Finance	**Agree** to undertake Ministerial consultation on the attached Cabinet paper	17 September 2025
Minister of Revenue	**Agree** to undertake Ministerial consultation on the attached Cabinet paper	17 September 2025

Contact for telephone discussion (if required)

Name	Position	Telephone	Suggested first contact
Claire McLellan	Acting Policy Lead, Inland Revenue	[39]	
Jean Le Roux	Manager, Tax Strategy, The Treasury		
Paul Quirke	Senior Analyst, Tax Strategy The Treasury		✓
Gordon Witte	Principal Policy Advisor, Inland Revenue		✓

28 August 2025

Minister of Finance
Minister of Revenue

Improving taxation of shareholder loans, Cabinet paper and consultation paper

Purpose

1 This report updates you on the work on the tax treatment of shareholder loans. Shareholder loans currently allow shareholders to access company funds with lower tax obligations than if they received dividends or salaries, leading to fairness and integrity concerns. We have prepared the attached officials' issues paper to publicly consult on potential policy reforms to address these concerns.

2 The attached Cabinet paper seeks agreement to publish an officials' issues paper that would consult on the nature and size of the problem, international approaches and a package of potential reforms.

Executive summary

Summary of the problem

3 Shareholders of close companies (companies controlled by a few shareholders who are natural persons or trustees) often borrow from their company. This ranges from formal loans to simply using the company's bank account as if it were their own money.

4 This behaviour is common and can lead to some very large loans. Approximately 165,000 shareholders who are natural persons or trustees owed $29 billion to 119,000 companies in 2024 (about 16% of the 730,000 total companies in New Zealand). Of these, 5,550 companies had loan balances of more than $1 million and 540 companies had loan balances of more than $5 million.

5 The current rules for taxing shareholder loans are inadequate. They encourage shareholders to access company funds using loans instead of dividends and often fail to collect tax on the funds left in the hands of the shareholder when a company ceases.

6 When shareholders receive dividends and other payments from their companies, the funds are fully taxed at the shareholder's marginal rate (up to 39%). In contrast, when a shareholder receives funds from their company in the form of a loan, tax is only paid on a small amount of annual interest income for the company. Further tax can be avoided if the company is wound up or sold.

7 This makes the tax system less fair and efficient. Owners of close companies can use shareholder loans to benefit from an unintended tax advantage. In contrast, other types of businesses such as widely-held companies, partnerships and sole traders cannot use shareholder loans and will be fully taxed (typically at 33% or 39% tax rates) when their owners receive dividends or other types of income.

8 When a company is wound up after providing loans to its shareholders the integrity and equity concerns heighten. In these situations, the tax advantage becomes permanent.

9 Liquidators' reports can highlight examples of some of the worst fairness and integrity concerns. Although these cases are a small subset of the overall population of companies with shareholder loans, outstanding shareholder loans often feature in media reporting on company liquidations. While the liquidator will try to recover these loans, they often reduce the company assets the liquidator can utilise to pay debts to Inland Revenue and other creditors.

Possible policy response

10 Other countries recognise the concerns associated with the use of shareholder loans and address these concerns with stronger rules that tax loans as dividends if they are not repaid within certain time periods.

11 We have identified a range of policy options to tackle the problem, including following the approach of Canada and the United Kingdom and taxing loans as dividends if they are not repaid within a certain period of time or prior to the company being wound up. There are also options that focus on greater information reporting to Inland Revenue to support compliance.

12 Taxing shareholder loans as dividends would prevent the accumulation of large balances and the likelihood of outstanding shareholder loans being an issue when a company is wound up. However, these solutions would also represent blunt 'bright-line' rules that could impose additional tax and compliance costs on thousands of companies and shareholders.

13 We expect most stakeholders would oppose a bright-line rule and argue for more targeted approaches. The consultation paper seeks feedback on how the bright-line rule could be improved, for example, through a de minimis and other exemptions for situations when shareholder loans are less likely to generate the problems described above.

14 Because the issues paper consults on a package of potential reform options and possible exemptions, it would be possible to proceed with a more limited reform. However, a more limited reform would be less effective for addressing the problems and raising tax revenue.

Fiscal and economic implications

15 Taxing loans as dividends could raise a substantial amount of tax revenue, but the revenue estimates are highly uncertain because they depend on the policy design and responses from the affected taxpayers. In earlier reporting, we estimated there could be a one-off fiscal gain of around $3 billion to $5 billion in 2028–29 if implemented from 1 April 2027.[1] Importantly, this one-off gain would only arise if policy decisions were made to proceed with the main reform option at its broadest settings, including applying it to the existing stock of loans. Consultation feedback is also expected to help refine the fiscal estimate by better informing our understanding of the likely behavioural response.

16 While the overall economic impact is uncertain, it is likely that the long-term benefits of improved tax integrity and increased revenue would outweigh any

[1] Given the significant uncertainty with the fiscal implications, we have taken a conservative approach in recent Budget and tax policy work programme reporting by reflecting the positive impact as at least $1 billion over the forecast period.

transitional phase negative effects from the affected shareholders either repaying existing loans or paying tax on a dividend.

17 Publishing a consultation paper in October 2025 would allow you to make decisions on whether to proceed with a reform and its design if you wanted to recognise revenue in Budget 2026.

Background

18 You asked officials to develop a consultation paper on potential reforms to address the fairness and integrity concerns identified with the use of shareholder loans (IR2025/049, T2025/495 refers). The officials' issues paper we have prepared seeks views on the policy problem and some ways in which it could be addressed. It does not commit to a course of action. It is intended that consultation feedback would be used to inform your decision on whether to proceed with any of the proposals.

Main policy problems

Current tax rules encourage use of loans with little incentive to repay

19 The most important problem is that the current tax rules make the use of loans an attractive way for shareholders to access cash from their company and provide little incentive for shareholders to repay them.

20 For every $100,000 loaned by the company to the shareholder, the current rules only require tax be paid on $6,670 of annual interest income. As this is often interest income for the company, it is only returned at the company tax rate rather than the shareholder's marginal tax rate (28% of $6,670 is $1,868 of tax each year). In contrast, if the company had declared a dividend or shareholder salary, the full value of the payment (eg, $100,000) would be immediately taxed at the shareholder's marginal tax rate (up to 39%, with a tax credit for any imputation credits attached to a dividend, so between $11,000 and $39,000 of top-up tax at the 39% rate, depending on imputation credits). Accordingly, the current tax rules encourage loans to be used instead of other forms of payments from companies to shareholders.

21 There is no requirement under current law that the loan be repaid within a certain period of time or before the company goes out of existence. Therefore, large loan balances can remain owing indefinitely.

22 Inland Revenue's data indicates there is a large and widespread use of loans by companies to their shareholders. Approximately 165,000 shareholders who are natural persons or trustees owed about $29 billion to 119,000 companies at the end of the 2023–24 tax year (about 16% of the 730,000 total companies in New Zealand).

23 While half of these companies had outstanding loan balances of less than $50,000, some companies had made very large loans that represented a high proportion of the total value of shareholder loans:

- About 5,550 companies had outstanding loan balances of more than $1 million (55% of the total value of all loans compared to being about 5% of all companies with shareholder loans).

- About 540 companies had outstanding loan balances of more than $5 million (22% of the value of all loans compared to being about 0.5% of all companies with shareholder loans).

24 The following table shows that the main industries with companies lending to shareholders were rental, hiring and real estate services, agriculture, forestry and fishing, and construction. This partly reflects the fact that there are a lot of companies in these industries but also reflects some of the companies in these industries making large loans to their shareholders.

Table 1: Companies lending to shareholders who are natural persons or trustees, by main industry, 2023/24 tax year

Industry	Number of companies reporting loans to shareholders	% of total companies lending to shareholders	Value of loans ($m)	% of total value of loans
Rental, Hiring and Real Estate Services	14,300	12%	7,660	26%
Agriculture, Forestry and Fishing	9,700	8%	5,340	18%
Construction	21,400	18%	3,110	11%
Financial and Insurance Services	3,500	3%	2,430	8%
Professional, Scientific and Technical Services	19,400	16%	2,030	7%

Tax not collected on shareholder loans when company ceases

25 Another problem is that the use of company loans to shareholders can increase as a company begins to fail or is expected to be wound up. These loans mean the company will have less cash or assets available to pay creditors, such as customer deposits, unpaid sub-contractors or suppliers, or tax debt that the company owes to Inland Revenue.

26 This problem is relatively large. Inland Revenue has analysed a dataset of about 182,000 companies that were removed from the Companies Register over a nearly six-year period between 1 April 2019 and early 2025. Nearly 15% of these companies (about 27,000) had reported they had loans to natural person or trustee shareholders in their last filed tax return prior to being removed from the Register. The total amount that they were owed by these shareholders was approximately $2.3 billion, with an average amount per company of nearly $85,000. Because the current tax rules do not deem these loans to be treated as taxable dividends before the company is removed from the register, no tax is collected from the shareholder.

27 The existence of shareholder loans is a common feature in media reports of individual company failures. This can undermine public confidence in the tax system and the perceived fairness of limited liability companies particularly in the more high-profile cases where the reporting often describes large shareholder loan balances, significant tax debt including PAYE and GST, as well as debts to other creditors.

28 An earlier report provided some specific examples of when companies had been liquidated with shareholder loans that reduced the amounts available to pay tax debt owed by the company (IR2025/165 refers).

Summary of proposals in consultation paper

29 We propose consulting on a range of policy proposals that would address the issues we have identified with shareholder loans, outlined below from A to D. The measures support each other so would be most effective if implemented as a full package. While it would be possible to proceed with a more limited reform that progressed only some of the measures, this would be less effective at addressing the problem and raising tax revenue.

A. Main proposal: require large loans to be repaid within certain time period

30 The main proposal in the attached officials' issues paper is based on the approach that Canada and the United Kingdom use to tax company loans to shareholders if they are not repaid within a certain time period.

31 Under the proposed reform, if a company has more than $50,000 of outstanding loan balances at the end of two consecutive tax years to shareholders who are natural persons or trustees, the loans would be taxed as dividends. This means the loan amount will be income to the shareholder and tax would be paid at the shareholder's marginal rate (up to 39%). The shareholder would be entitled to a tax deduction for any repayment of a loan that was previously treated as a taxable dividend.

32 The proposed value and time limits would allow shareholders to continue to borrow a limited amount from their companies to manage their cashflow. About half the companies reporting shareholder loans in the 2023–24 tax year had loan balances of less than $50,000 so would not be taxed under this proposal unless their loan balance increased. The proposal would encourage other affected shareholders to repay their loans, in which case they would not face additional tax. It accommodates a common practice when short-term loans are often repaid by declaring a shareholder salary up to 12 months following the end of the tax year.

33 The consultation paper also discusses the approach Australia takes, which requires the shareholder loans (including informal drawings) to be properly documented in written agreements with required interest rates and repayments (undocumented and non-complying loans are taxed as dividends). It notes that officials consider this would increase compliance and administration costs but is unlikely to be effective at addressing the tax issues.

B. Tax shareholder loans when company is removed from Companies Register

34 The issues paper proposes that shareholder loans would be treated as a taxable dividend to the shareholder immediately before the company's removal from the Companies Register. This would impose clear tax obligations on the company and shareholder, and improve Inland Revenue's ability to collect the tax.

C. Increasing interest rate companies are required to charge on loans to shareholders

35 Companies are required to pay tax on the interest income they earn from lending funds to their shareholders. Under current law, to the extent the interest rate on a loan by a company to a shareholder is less than a prescribed interest rate, the difference is taxed as a dividend.

36 However, the current prescribed rate, which is based on mortgage interest rates, appears to be inadequate as it does not reflect the rates that the company would charge if it lent unsecured funds to an unrelated person. The consultation document therefore proposes increasing the basis for the prescribed interest rate, so it is closer to credit card interest rates, or the overdraft interest rates charged by banks to small and medium enterprises.

D. Reporting information to Inland Revenue

37 The issues paper also consults on proposals for companies to report information to Inland Revenue to improve compliance with the new rules for shareholder loans as well as the existing rules that determine taxable dividends when a company is liquidated.

External stakeholders are likely to oppose potential reforms

38 Improving the tax rules for shareholder loans is complex and requires public consultation to better understand the problem, better estimate the fiscal impact, and address practical issues and unintended consequences of the policy options and their design features.

39 We expect external stakeholders to generally agree that shareholder loans can be problematic, particularly where companies fail or are wound up. However, we expect most external stakeholders are likely to oppose broad reform, which taxes loans as dividends. As noted above, the use of shareholder loans is widespread, and the reforms could impose new costs on thousands of companies and shareholders who would need to monitor and repay the loans or pay additional tax.

40 Some external stakeholders may consider that the current rules are adequate. They require a minimum interest rate to be charged (currently 6.67%) and stakeholders may argue that most of the affected shareholders will eventually repay their loans. However, these existing rules are leading to very large loan balances with no timeframe in which they need to be repaid. The interest amount can also be capitalised into the shareholder loan, further putting pressure on the balance. The current rules only result in the loans becoming taxable dividends to the extent interest income is below the minimum rate or the loan is forgiven by the company, which may never happen or be years after a company has ceased. The proposed policy options would make it much easier for Inland Revenue to monitor and enforce tax collection.

41 Stakeholders could refer to the significant reduction in loan balances between the 2021–22 tax year ($48.8 billion of outstanding loans) and the 2023–24 tax year ($29 billion of outstanding loans). The issues paper suggests that these reductions were likely driven by increased dividend payments due to high company profits and a surge in dividends to trustee shareholders ahead of the new trustee tax rate, which increased to 39% from April 2024. Many of these dividends may have been used to repay earlier loans, contributing to the observed reduction in loan balances. However, the paper notes that the 2023–4 data shows there are still very large amounts of outstanding loans.

42 The issues paper also outlines the tax rules in other countries, which have much stronger rules than New Zealand for taxing company loans to shareholders.

43 There may be pressure to exclude:

- Existing loans: The existing stock of loans made prior to the reforms as some stakeholders may consider imposing a new requirement to repay past loans or pay a large, unexpected tax liability to be unfair or retrospective. Arguments may be raised that it could result in further company failures and hardship for business owners. Noting that we expect transitional impacts from the main proposal to materialise in 2029/30 (see paragraphs57–59 below).

- Loans that were funded through capital gains: In some cases, the company may have made a capital gain by selling some of its assets and then used a loan to distribute these gains to the shareholder. These capital gains would have been taxed if they had been distributed as an unimputed dividend. However, they would not be taxed if the business owner had owned the asset directly (such as a sole trader or partnership) or if the company had been sold or wound up.

44 While we could decide to provide more exclusions or only progress the more targeted proposals in the issues paper, doing so would be less effective at addressing the underlying problems and collecting additional tax revenue. It is unlikely to change behaviours to reduce the overall stock of loans. Challenges could remain in collecting tax when a company is wound up with loans to shareholders.

Consultation options

45 Officials recommend seeking Cabinet approval to publish the attached officials' issues paper that would consult on the nature and size of the problem (including data and examples to illustrate the problem), international approaches, and a package of potential reforms.

46 Publishing a consultation paper in October 2025 would allow you to make decisions on whether to proceed with a reform and its design in early 2026 and seek final policy decisions from Cabinet by early April 2026, which would be required if you wanted to recognise revenue in Budget 2026.

47 If Ministers are concerned about the potential stakeholder reaction, there are alternative consultation options you could consider, including:

- Conducting targeted consultation with trusted tax advisors on an in-confidence basis to test the problem definition and identify potential concerns with the proposals.
- Consulting on the problem definition and international approaches without including specific proposals may be one way to alleviate some of the potential negative reaction because it would offer the opportunity to build some consensus that there is an issue to be addressed. Specific proposals could then be consulted on in a second consultation document.

48 However, a two-stage consultation process could delay the date that Cabinet considered decisions on the final policy design. These decisions would be required by early April 2026 if you wanted to recognise revenue in Budget 2026.

Fiscal implications

49 Publishing a consultation paper would have no direct fiscal implications. However, the proposed reform could generate significant, though highly uncertain, tax revenue depending on the final design. If the main proposal was legislated in 2026 and implemented from April 2027 there could be a one-off additional tax revenue of about $3 billion to $5 billion in 2028/29. Due to this uncertainty, we have taken a conservative approach in recent Budget and tax policy work programme reporting by reflecting the positive impact as at least $1 billion over the forecast period.

50 Importantly, this one-off fiscal gain would only arise if policy decisions are made to tax the existing stock of loans (which we recommend). Even if this policy decision is taken, our estimated range is uncertain because it depends on behavioural assumptions (repaid loans would not be taxed) that are highly uncertain.

51 The ongoing fiscal impacts from 2029/30 onwards are also highly uncertain as the net tax collected each year would depend on the values of newly taxed loans minus tax deductions for previously taxed loans that the shareholder has subsequently repaid to their company. The ongoing revenues could be in the range of $200 million to $500 million per year but could potentially be negative for a few years if lots of the loans that were taxed in 2028/29 were subsequently repaid in future years.

52 We expect strong pressure from submitters to amend the proposals to provide more exemptions or relief for the affected loans (including for the stock of existing loans) as well as strong behavioural responses to repay loans. Both issues could greatly reduce the additional tax revenue which could be generated if the proposals were implemented.

53 We will report back with further advice on the design of the proposals and the fiscal implications of proceeding with them, following public consultation.

Economic impacts

54 The economic impacts of the proposed policy changes will depend on which specific option, if any, is implemented. The main proposal would embed the impact of the higher top personal tax rates on the cost of capital for business investment by close companies. While the economic impact is uncertain, it is likely that the long-term benefits of improved tax integrity and increased revenue will outweigh any transitional phase negative effects.

55 In the transitional phase, significant reform would place pressure on liquidity as shareholders face obligations to either repay loans (repaid loans would not be taxed) or pay the associated tax (particularly if borrowed funds have already been spent).

56 Some shareholders may need to divert funds from productive investments to meet these obligations, which could reduce investment and economic growth in the transitional phase. However, to the extent the loans are repaid there could be more cash retained in companies, increasing the funds available for business investment. While some international analysis suggests that firms are less likely to use retained earnings to increase productive investment and are more likely to be invested in financial assets, Investment Boost provides a strong incentive for companies to invest in new capital assets.

57 Given a 1 April 2027 application date, we would expect any transitional phase economic impact to materialise in 2029/30.

58 Over the longer term, strengthening the integrity of the tax system is expected to enhance both efficiency and fairness. By reducing tax distortions, the reforms would encourage a more efficient allocation of resources. It would reduce an unintended tax advantage for shareholders of close companies. They would be taxed more consistently with other types of business owners (and employees) who are taxed at their marginal tax rate when they earn income or receive dividends. Higher effective tax burdens on shareholders could be a discouragement at the margins for some individuals from starting or expanding businesses, or lead to changes in business structures. However, the additional tax revenue could be used to fund

more productive public spending or reduce government borrowing, further supporting economic growth.

Administrative implications

59 Releasing the attached consultation paper for public consultation has no immediate administrative implications. The administration impacts to implement and administer the proposals in the consultation paper are subject to design features which may change after the consultation. An early estimate of the administration costs is $2 million operating to implement and $2 million operating a year to administer. We will report back on the administrative impact of progressing the proposals following the proposed consultation.

Next steps

60 The following table provides an indicative timeline for releasing the consultation paper:

Deliverable	**Date**
Possible joint Ministers discussion	8 September
Ministerial consultation on Cabinet paper	17 September
Lodgement of attached papers with the Cabinet Office	2 October
ECO considers Cabinet paper	8 October
Cabinet approval to release consultation paper	13 October
Publication of consultation paper	14 October
Submissions close	27 November

61 This timeline would mean that Cabinet would consider the release of the consultation document after it had discussed the budget strategy (15 September), and around the same time as Budget Ministers meet in the week of 6 October on budget invitations.

62 If you wanted to recognise revenue in Budget 2026, Cabinet decisions on the final policy design of the reforms would be required by early April 2026.

Recommended action

We recommend that you:

1 **Note** New Zealand's current tax rules encourage close companies to loan funds to their shareholders instead of paying taxable dividends and other countries have stronger rules to address this by taxing loans as dividends if they are not repaid within certain time periods.

Noted Noted

2 **Agree** to the Treasury and Inland Revenue publicly consulting on the nature and size of the problem, international approaches and a package of potential reforms to the tax rules which apply to company loans to shareholders.

Agreed/Not agreed Agreed/Not agreed

3 **Note** the contents of this report, attached draft Cabinet paper and draft officials' issues paper.

Noted Noted

4 **Note** the draft officials' issues paper is subject to your feedback and minor editorial change.

Noted Noted

5 **Agree** to undertake Ministerial consultation on the attached Cabinet paper.

Agreed/Not agreed Agreed/Not agreed

[39]

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